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| 14 | EXHIBITS  |        |       |          |          |
| 15 |   |        |       | MARKED   | ADMITTED |
| 16 | CenturyLink Exhibits 1.0, 1.1,<br>1.2 & 4.0             |        |       | e-Docket | 39       |
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| 18 | CenturyLink Cross Exhibit 1                             |        |       | 126      | 128      |
| 19 | Staff Cross Exhibits 1 through 5                        |        |       | 127      | 127      |
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PROCEEDINGS

JUDGE YODER: By the authority vested in me by the Illinois Commerce Commission, I now call Docket 11-0567. It's a petition filed by Gallatin River Communications, LLC doing business as CenturyLink seeking arbitration pursuant to Section 252(b) of the Communications Act of 1934 as amended.

Can I have the appearances for the record, please?

MR. DETHLEFS: On behalf of CenturyLink, Tom Dethlefs.

JUDGE YODER: Go ahead and spell your name for the court reporter.

MR. DETHLEFS: That's D-e-t-h-l-e-f-s.

MR. TWOMEY: For NTS Services Corp., Christopher Twomey (T-w-o-m-e-y).

MR. LANNON: And appearing on behalf of the staff of the Illinois Commerce Commission, Mike Lannon and Jim Olivero.

JUDGE YODER: All right. Is anyone else wishing to enter their appearance in this docket?

1                   Let the record reflect no response.  
2                   Before we begin calling witnesses,  
3   Mr. Dethlefs indicated there was a motion for entry  
4   of a protective order I think all the parties agreed  
5   to which was granted. However, he indicates that  
6   apparently it had not shown up on the e-Docket sheet  
7   of the Illinois Commerce Commission, so I'll confirm,  
8   I understand the parties have all conducted  
9   themselves in accordance with that protective order,  
10   and we'll remedy that if needed.

11                  My understanding is then Gallatin  
12   River CenturyLink is going to call their first  
13   witness.

14                  If I could have everyone who's going  
15   to testify today stand and raise your right hand and  
16   I'll swear you all at once.

17                               (Whereupon the witnesses were  
18                               sworn by Judge Yoder.)

19                  MR. DETHLEFS: CenturyLink would call Mr. Guy  
20   Miller as its first witness.

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GUY MILLER

called as a witness herein, on behalf of CenturyLink,  
having been first duly sworn on his oath, was  
examined and testified as follows:

DIRECT EXAMINATION

BY DETHLEFS:

Q. Mr. Miller, would you state your name and  
business address for the record?

A. My name is Guy Elmer Miller III. My  
business address is 100 CenturyLink Drive, Monroe,  
Louisiana 71203.

Q. Mr. Miller, have you prepared testimony for  
today?

A. Yes, I have.

Q. Could you identify the testimony that you  
have prepared?

A. I have copies in front of me.

Q. So to go through it, you have prepared  
testimony that we've marked as Exhibit No. 1,  
CenturyLink Exhibit 1?

A. Yes, I have.

Q. And does it have two exhibits, CenturyLink

1 Exhibits 1.1 and 1.2?

2 A. Yes, that's correct.

3 Q. As well as rebuttal testimony which we've

4 marked as CenturyLink Exhibit 4.0?

5 A. Yes, that's correct.

6 Q. Do you have any corrections to your

7 testimony today?

8 A. No, I do not.

9 Q. If you were asked the questions that are

10 asked in your Exhibits 1.0, 1.1, 1.2 and 4.0 today,

11 would your answers be the same as in your prefiled

12 testimony?

13 A. Yes, they would.

14 MR. DETHLEFS: CenturyLink would offer

15 CenturyLink's Exhibits 1.0, 1.1, 1.2 and 4.0 into

16 evidence.

17 JUDGE YODER: All right. Do you tender

18 Mr. Miller for cross?

19 MR. DETHLEFS: I would tender Mr. Miller for

20 cross.

21 JUDGE YODER: Mr. Twomey, you have cross

22 reserved for this witness?

1 MR. TWOMEY: Yes.

2 JUDGE YODER: Okay.

3 CROSS-EXAMINATION

4 BY MR. TWOMEY:

5 Q. Mr. Miller, on page 10 of your testimony,  
6 you claim that CenturyLink filed rates on February 2,  
7 2011 to NTS that were TELRIC-based?

8 A. You're speaking page 10 of my direct?

9 Q. Correct.

10 Can you tell me on what cost study  
11 these rates were created, those prior to NTS on  
12 February 2, 2011?

13 A. I'm sorry. Can you restate the question?

14 Q. My question is this. Your testimony says  
15 that the rates provided were, quote, "TELRIC based."  
16 Is that true?

17 A. Yes.

18 Q. Okay. On what study or on what basis can  
19 you say that they were TELRIC-based? Was there a  
20 cost study in creation at that time?

21 A. Yes, there was. Ms. Londerholm, a witness  
22 in this case, is responsible for CenturyLink's TELRIC



1 cost studies and the pricing derived thereof.

2 Q. Was this cost study provided to NTS at the  
3 time the rates were provided in February 2011?

4 A. I do not recall NTS asking for it. Cost  
5 study is not automatically given to somebody. We  
6 give them rates. If there's any question about the  
7 rates, which there was no question whatsoever from  
8 NTS until April, we don't automatically provide a  
9 cost study.

10 Q. The cost study that was eventually  
11 provided, was it a full model or just a summary?

12 A. I think you would be better off asking  
13 Ms. Londerholm about the specifics of the cost study.

14 Q. Sure. Fair enough.

15 If you could turn to page 13 of your  
16 testimony, please.

17 A. Still in my direct?

18 Q. Yes.

19 You state that, quote, "There is no  
20 evidence of any cost study production for the  
21 terminated ICA pricing, and Gallatin River employees  
22 that remained employed by CenturyLink were unaware of

1     any cost study for Illinois."

2                     Can you explain a little bit more this  
3     statement?

4             A.    Yes.   The reference is to the pricing that  
5     was contained in the expired agreement between  
6     Gallatin River Communications, then a subsidiary of  
7     Madison River Communications, and NTS.   That pricing  
8     was negotiated between the parties.   It was not  
9     established pursuant to a TELRIC study.

10                    The employees of Madison River who  
11     were responsible for that negotiation were employees  
12     in my department at the time of the CenturyTel, as we  
13     were known at that time, the CenturyTel acquisition  
14     of Madison River, and I had spoken to them  
15     generically about their agreements, about their  
16     pricing and so forth.

17                    I also at this time reached out to one  
18     of those employees, actually, the vice president, and  
19     also to Mr. David Rudd who was still employed by our  
20     company at that time to ascertain whether or not I  
21     had a misunderstanding whether indeed there was any  
22     cost study ever done for Illinois, and both of those

1 gentlemen said no, that there had not been.

2 Q. So you're not aware of any cost study for  
3 Gallatin River in the approximately 1998 time period?

4 A. I am not aware of any cost study done for  
5 Gallatin River. Neither were these gentlemen that  
6 were responsible for such things.

7 Q. Would it surprise you to know that there is  
8 a retail cost study currently sitting somewhere in  
9 this building?

10 A. Well, a retail cost study is not a TELRIC  
11 UNE cost study. The issue here is the unbundled  
12 network element pricing, the UNE pricing in this  
13 agreement, and we're speaking of a TELRIC cost study.

14 A retail cost study to establish  
15 retail pricing would be something totally different.

16 Q. Okay. When you discussed the prices with  
17 the employees who work with Gallatin River prior to  
18 the acquisition, did they describe how they came to a  
19 rate of \$17.93?

20 Was it in any way related to the  
21 retail rate in this cost study?

22 A. I am not aware that it is. They gave me no

1       indication that it was related to that.

2               Q.    Would you agree that if rates cannot be, in  
3   an arbitration, if rates cannot be agreed upon for a  
4   cost study that a commission has the authority to  
5   establish them as proxy rates?

6               A.    No, I do not agree.  Federal law does not  
7   allow that.  The federal law at one time did allow  
8   the Commission to establish proxy rates, but that  
9   portion of federal regulation, that authority was  
10  vacated by the Eighth Circuit Court and, of course,  
11  the, well, not of course, but in this case, the  
12  decision was appealed to the Supreme Court.  The  
13  Supreme Court did not change that.  That law has been  
14  vacated.

15                       So there's no authority whatsoever in  
16  federal law for any assignment of anything other than  
17  TELRIC rates pursuant to a TELRIC study with TELRIC  
18  costs that pertain to the incumbent telephone  
19  company.

20               Q.    Okay.  I think I'll save that one for  
21  briefing.

22                       At page 14 at the end of your direct

1 testimony, you state that NTS suggested a rate of  
2 \$12.50 for a DS-0 UNE loop, and you suggested that  
3 that was an arbitrarily selected rate between two  
4 AT&T Illinois rates.

5 Now, given that there was one rate and  
6 then another rate, how did you come to describe that  
7 as arbitrarily selected?

8 A. During the negotiations with NTS, NTS  
9 quoted that as the rate that they wanted to pay for  
10 the UNE Band 1 loop.

11 NTS stated, to the best of my  
12 recollection, that that was based upon AT&T rate.  
13 There was never any evidence submitted either in  
14 negotiation or in negotiations pursuant to this  
15 arbitration as to how NTS derived that rate, whether  
16 there was any support whatsoever for that.

17 That leads me to the conclusion that  
18 it was arbitrarily selected.

19 Q. Do you recall ever having a discussion  
20 about the rates being charged across the river in  
21 Pekin and Bartonville?

22 A. I remember that CenturyLink and NTS had

1 discussion about the DS-1 rate that was charged in  
2 Bartonville. I do not recollect anything about the  
3 DS-0 rate.

4 Q. Now, during the negotiations, on page 16 of  
5 your direct, you state that NTS questioned  
6 CenturyLink's cost model inputs and CenturyLink's  
7 input source material but made no other effort to  
8 challenge the pricing. Is that correct? Is that  
9 still your recollection from the negotiations?

10 A. Yes. NTS made some assertions that they  
11 didn't agree with some of the cost inputs, but I do  
12 not recollect NTS providing any evidence as to why  
13 our inputs were wrong, I mean, any actual evidence  
14 other than just assertions.

15 Q. Do you recall what the questions -- I'm  
16 sorry to interrupt. Do you recall what the questions  
17 were about the inputs that NTS had raised at the  
18 time?

19 A. I'm sorry, counsel. I don't understand the  
20 question.

21 Q. The inputs that NTS raised, do you remember  
22 what they specifically were, the issues that NTS had

1 questions about?

2 A. I would hesitate to say what they were,  
3 Mr. Twomey. The cost study is not my area of  
4 expertise so I didn't -- I was there. I listened. I  
5 heard. My memory could be refreshed, but it wasn't  
6 my area of expertise so I didn't write anything down  
7 or attempt to understand, you know, what those were  
8 and how they related because I don't personally run  
9 the cost study.

10 Q. Can you tell us the status of CenturyLink's  
11 interconnection agreements with other CLECs in the  
12 State of Illinois where they also notice for  
13 expiration and negotiations, then continue as they  
14 went with NTS?

15 A. Yes.

16 Q. Can you tell me the status of negotiations  
17 with Essex Telecom right now?

18 MR. DETHLEFS: Your Honor, I don't know what  
19 the relevance of negotiations of other CLECs is to  
20 this proceeding, so I object to the relevance.

21 MR. TWOMEY: I'm trying to determine whether or  
22 not there are any other negotiations that have been

1     potentially concluded but may not have been submitted  
2     yet.

3             MR. DETHLEFS:   I'm okay with that.

4             JUDGE YODER:   Okay.

5             Q.   BY MR. TWOMEY:   Okay.   So tell me the  
6     status of Essex, the negotiations of Essex Telecom if  
7     you're aware of them.

8             A.   It is not concluded.

9             Q.   How about negotiations with BitWise  
10    Communications?

11            A.   It is not concluded.

12            Q.   Now, are you saying negotiations haven't  
13    been concluded or the agreement has not yet been  
14    filed?

15            A.   Negotiations have not been concluded with  
16    any CLEC in this state, and there are no issues  
17    whatsoever raised by any CLEC in the state except for  
18    NTS including the issue of pricing.

19            MR. TWOMEY:   Okay.   I have no further  
20    questions.

21            JUDGE YODER:   Mr. Lannon, you didn't have any  
22    cross?



1           MR. LANNON:   No.

2           JUDGE YODER:   Any redirect?

3           MR. DETHLEFS:   No, no redirect, Your Honor.

4           JUDGE YODER:   All right.   You may step down.

5                           (Witness excused.)

6           MR. DETHLEFS:   Your Honor, I had offered his

7 exhibits into evidence.   Have they been admitted?

8           JUDGE YODER:   Not yet.

9                           Is there any objection to the

10 admission of Mr. Miller's direct and rebuttal

11 testimony?

12           MR. TWOMEY:   No.

13           MR. LANNON:   None, Your Honor.

14           JUDGE YODER:   Hearing no objection, those will

15 be admitted into evidence in this docket, the company

16 attachments or exhibits with his direct.

17                           (Whereupon CenturyLink Exhibits

18                           1.0, 1.1, 1.2 & 4.0 were

19                           admitted into evidence at this

20                           time.)

21           JUDGE YODER:   All right.   Your next witness is

22 Ms. Londerholm?

1           MR. DETHLEFS:   Yes.

2                       Your Honor, I have the Exhibit 3.2 in

3 both the disk format and printed up copies.

4                       Do any of you need the cost study?

5           MR. TWOMEY:   No.

6                       (Whereupon CenturyLink Exhibit

7                       3.2 was marked for

8                       identification as of this date.)

9           JUDGE YODER:   Ms. Londerholm, were you

10 previously sworn?

11           THE WITNESS:   Yes.

12           JUDGE YODER:   Thank you.

13                       Go ahead.

14                       CHRISTY LONDERHOLM

15 called as a witness herein, on behalf of CenturyLink,

16 having been first duly sworn on her oath, was

17 examined and testified as follows:

18                       DIRECT EXAMINATION

19 BY MR. DETHLEFS:

20           Q.    Could you state your name and business

21 address for the record?

22           A.    Christy Londerholm, 5454 West 110th Street,

1 Overland Park, Kansas.

2 Q. Have you prepared testimony for today?

3 A. Yes, I have.

4 Q. And does your testimony consist of your  
5 direct testimony, Exhibit 2.0, and an Attachment 2.1?

6 A. Yes.

7 Q. And your rebuttal testimony is Exhibit 3.1  
8 with Exhibits 3.2 and 3.3 attached to that?

9 A. Yes.

10 Q. If you were asked the questions in your  
11 direct and rebuttal testimony today that are in your  
12 direct testimony, would your answers be the same?

13 A. Yes.

14 Q. Do you have any corrections to make to  
15 those testimonies?

16 A. No.

17 MR. DETHLEFS: We would offer Ms. Londerholm's  
18 Exhibits 2.0, 2.1, 3.1, 3.2 and 3.3 into evidence.

19 JUDGE YODER: All right. You tender her, and  
20 we'll reserve admission of exhibits until after  
21 cross-examination.

22 MR. DETHLEFS: We offer Ms. Londerholm for

1 cross-examination.

2 JUDGE YODER: All right. Mr. Twomey?

3 MR. TWOMEY: Good morning, Ms. Londerholm.

4 THE WITNESS: Good morning.

5 CROSS-EXAMINATION

6 BY MR. TWOMEY:

7 Q. So you have deep expertise with costing and  
8 pricing models. I'm just a lawyer. I can't do  
9 numbers in my head, so I'm not going to ask you about  
10 specific numbers, just more general concepts, and I'm  
11 going to leave some of the questions about the cost  
12 study directly to staff because they seem to be  
13 interested in some more of the details of the  
14 numbers.

15 I just want to ask you a little bit  
16 about your background first.

17 I think your testimony said you've  
18 testified in five other states. Were those all  
19 interconnection agreement arbitrations?

20 A. No.

21 Q. Okay. Can you describe the nature of  
22 those, that testimony?

1           A.    Yes.  I was involved in the TRO hearings  
2   that were taking place in 2004, and actually, since I  
3   was a Sprint employee at that time, Sprint had a one  
4   Sprint philosophy, so I was actually supporting the  
5   CLEC side of the company at that particular point in  
6   time.

7                       Ohio was an arbitration and so was  
8   Texas.

9           Q.    So have you testified before the Illinois  
10   Commerce Commission before?

11          A.    No.  This is my first time.

12          Q.    Have you prepared cost studies for Illinois  
13   in your jobs prior to the acquisition by CenturyLink  
14   or currently other than the one you've done for this  
15   particular case?

16          A.    Yes.  We've prepared the Illinois cost  
17   study that we shared with NTS and that Mr. Miller  
18   discussed with you.

19                    The history is that CenturyTel and  
20   Embarq came together.  I was on the Embarq side of  
21   the company, and so when we came together, Illinois  
22   was a new property for us.  Embarq had an economic

1     costing group which I headed up.

2                     So when the company came together,  
3     CenturyTel didn't have an economic costing group, so  
4     we started the process of performing economic cost  
5     models for all of the CenturyTel locations that  
6     hadn't been done before.

7                     But to be clear, the cost model and  
8     the cost study that we did for Illinois wasn't just  
9     specific for NTS. We performed cost model and cost  
10    study work across all of our properties for multiple  
11    different purposes.

12            Q.     Sure. Of course.

13                    I'm going to ask you the same question  
14    I asked Mr. Miller about the retail cost study that  
15    apparently was done for Gallatin River.

16                    Were you familiar with that at all?

17            A.     Could you restate what that is again?

18            Q.     In 1998, and Mr. Miri can testify to this,  
19    apparently, there was a retail cost study done for  
20    Gallatin River at the time.

21                    Were you familiar with that study's  
22    existence at the time of doing your work for this

1 current cost study?

2 A. No. It wouldn't have had any relevance to  
3 the cost study work that I had, and particularly 1998  
4 was probably a time, you know, the 1996 Act came  
5 about which required the TELRIC studies to be done  
6 for UNES in interconnection agreements, and so a  
7 retail study from 1998 likely had a completely  
8 different standard than what the TELRIC FCC rules  
9 would have been and required for unbundled network  
10 elements in interconnection agreements.

11 Q. Okay. Let's talk about TELRIC a little bit  
12 then.

13 Specifically to your point about 1998,  
14 at that time, the development of cost models was new  
15 as was the network designs were different at that  
16 time, is that true?

17 A. No, they were not.

18 Specifically 2000 when Telcordia wrote  
19 their notes on the network in 2000 was speaking that  
20 the 12,000-foot CSA design was the correct network  
21 design.

22 Q. Okay. That's the question. That's where

1 I'm headed.

2 So the TELRIC standard was for the  
3 1996 act, correct?

4 A. Correct. It's an FCC term coming from  
5 TSLRIC. That's where TELRIC is derived to get to an  
6 element versus a service.

7 Q. Now, at that time, were digital loop  
8 carriers used as extensively as CenturyLink now  
9 appears to be using them in their network in  
10 Illinois?

11 A. Well, TELRIC doesn't rely on the embedded  
12 network. It's not any sort of attempt to inventory  
13 what type of equipment is in the network. It's a  
14 completely reconstructed network design using the  
15 most efficient network technology and a least cost  
16 network configuration, so it doesn't rely upon the  
17 embedded investment.

18 The central offices are the only  
19 location of embedded network that's used in the  
20 actual modeling process and then, of course, the  
21 customer locations, but everything else is  
22 reconstructed including the cabling wire which is the



1 physical path between the customer location and the  
2 central office and any electronics that are needed  
3 out in the field.

4 Q. But at the time when TELRIC was created, do  
5 you believe that standard anticipated the use of  
6 network infrastructure that was not just provided  
7 with voice but was also used for data such as a  
8 digital loop carrier?

9 A. Yes. I do think the FCC has started down a  
10 path of thinking about broadband to be sold as a UNE.  
11 However, that got completely turned around much  
12 later, and it was very clear that the FCC was looking  
13 to not have broadband as part of the UNE elements,  
14 and they took multiple steps around making that very  
15 clear. They redefined the mass market loops to take  
16 broadband out of the UNE elements.

17 So to your question, I would suppose  
18 that the TELRIC standard at the time did anticipate,  
19 digital loop carriers did anticipate a 12,000-foot  
20 CSA design.

21 Q. Okay. So I'd like to talk about again loop  
22 lengths.

1                   Now, when a remote switch is placed  
2   into a network such as a digital loop carrier or a  
3   remote switch, with the cost model that you've  
4   created, does that model take into account the  
5   distance of the loop between the remote switch and  
6   the customer or is the loop length that's included in  
7   the cost all the way back to the central office  
8   serving the remote switch to the main distribution  
9   frame there?

10           A.   I want to first be clear that a DLC is not  
11   a remote switch, but as the FCC defines the loop, it  
12   is from the customer location to the remote or from  
13   the customer location to the central office, to a  
14   host office, in this case it's a host office, not a  
15   remote. So the main distribution frame can be  
16   located at the host or it can be located at the  
17   remote, and it's the distance from the customer  
18   location to either one of those.

19           Q.   So in your study though, would you say the  
20   loops that are, I think there was something on the  
21   order of 31 percent of the loops were served by  
22   remote switch. Is that accurate?

1           A.    No.

2           Q.    Okay.  Can you give me the number or tell  
3 me what it might be?

4           A.    I don't know.

5           Q.    Okay.

6           A.    I don't distinguish my switches between  
7 host and remote because it doesn't matter to me in my  
8 study.

9                   The 31 percent that you're thinking of  
10 are the 31 percent of the loops that are behind a  
11 digital loop carrier in this study.

12          Q.    So then the loop length that CenturyLink  
13 puts into the study is the distance between the  
14 digital loop carrier and the customer or is it then  
15 all the way back to the central office serving that  
16 DLC?

17          A.    It's all the way back to the central office  
18 that serves the DLC.

19                   So the customer, to be clear, the  
20 customers are put on the map as part of our process,  
21 and the central office location is put on the map.  
22 We do not know where the digital loop carriers are

1 going to be located at that particular point in time,  
2 so that's the loop distance that would be in the  
3 model.

4 Q. Okay. So then would it be fair to say that  
5 for 31 percent of the loop length cost in the model,  
6 they extend beyond what would be a point of  
7 interconnection of the network, of CenturyLink's  
8 network between the customer and the central office,  
9 so, in effect, you're taking a longer loop length  
10 than would be typical if the customer was served by a  
11 central office directly?

12 A. The model does not move customers from  
13 their actual physical location to another location in  
14 order to shorten the loops if that's what you're  
15 asking me. I'm somewhat confused on what you're  
16 asking me.

17 Q. I guess my question is this. So in effect,  
18 by putting a DLC, digital loop carrier, into the  
19 field, CenturyLink does this for the purpose of  
20 efficiencies in the network, is that correct, or why  
21 are DLCs installed if I can ask that question?

22 A. They are a concentration point in order to

1 shorten the copper portion of the loop. So we  
2 concentrate all the copper loops onto the digital  
3 loop carrier, and then from there, they ride fiber  
4 into the central office. That's the modeling of  
5 TELRIC in the FCC's requirement that a 12,000-foot  
6 CSA design be used.

7 But the loop length has nothing to do  
8 with a digital loop carrier at all. The loop length  
9 has to do with the physical address of the customer  
10 and the actual location of the central office.

11 Q. Okay. Now, in terms of determining  
12 forward-looking install cost as part of the model,  
13 one of the things that is considered would be  
14 terrain; is that true?

15 A. That would be correct.

16 Q. Would you describe the terrain in central  
17 Illinois to be particularly difficult to serve in  
18 terms of just the cost of digging, the cost of  
19 maintaining fiber and copper, more difficult than  
20 others you've looked at in other cost studies for  
21 example?

22 A. No, I would not consider it more difficult

1     than others. There are a number of places where  
2     CenturyLink's territory is next to the river, and  
3     sometimes getting into those areas, it can be kind of  
4     wet, and that can make it a little more difficult,  
5     but we construct plant very specific to certain  
6     locations, and each one can be very different in the  
7     way that the construction would have to work, but I  
8     would not characterize our Illinois property as being  
9     any more difficult than many of our others.

10           Q.    Okay. Do you have any idea if the terrain  
11     differs substantially for the areas served by  
12     CenturyLink versus those in the former Verizon rate  
13     centers that are the subject of the Verizon  
14     arbitration?

15           A.    I don't know the Verizon territory at all.  
16     I have no opinion on that.

17           Q.    Okay. Now I'd like to talk about the  
18     capital and expense cost portion of the cost study.

19                   In your testimony, you state that the  
20     price of unbundled elements should include a  
21     reasonable allocation of common cost, is that  
22     correct?

1           A.    I quote the FCC who states that, that's  
2   correct.

3           Q.    Can you just give me a quick synopsis of  
4   what common costs would generally be considered as  
5   part of the study, what those would entail on a very  
6   high level?

7           A.    The FCC explains common costs as well.  
8   They're common to the entire company across all  
9   services and all organizations.

10                   So within CenturyLink we have three  
11   major divisions.  We have our regional market groups,  
12   we have our business market groups, and we have our  
13   wholesale market groups, and so those common costs  
14   would be common to all of those.  UNEs fall within  
15   the wholesale market group.

16           Q.    Okay.  So the common costs or those that  
17   are included in the study, are those in Illinois  
18   alone or is that across the entire organization,  
19   which is now quite large?

20           A.    Common costs are across the entire  
21   organization.

22           Q.    Okay.  So determining common costs

1 applicable to cost studies, there has to be a method  
2 to split the wholesale costs, common costs, versus  
3 the retail common costs; is that true?

4 A. The method for which we perform our common  
5 costs to add to a UNE loop is to recognize that every  
6 loop requires the common cost associated with it.

7 So whether the loop is sold to a CLEC  
8 or whether the loop is a retail loop, that common  
9 cost is the same across the entire company, across  
10 the entire loops within Illinois.

11 Q. Okay. Well, let's talk about other direct  
12 costs, ODC.

13 In your testimony, you said that  
14 CenturyLink predicted the customer operation expenses  
15 of 100 percent wholesale business entity. How did  
16 that work?

17 A. Within the other direct cost module, we  
18 load up from our general ledger all the expenses  
19 associated with the other direct cost. We then use a  
20 percentage as shown within the documents that we're  
21 giving to NTS as well where we back out those  
22 retail-related costs to net, just the wholesale



1 piece, and I explain that on page 17 of my direct  
2 testimony.

3 Q. Okay. Now, did CenturyLink use the same  
4 method for backing out those costs as you put it?  
5 Did they use the same method in previous arbitrations  
6 or is it a consistent company policy essentially is  
7 my question?

8 A. In performing a UNE loop, it's the  
9 consistent methodology we've used for all the direct  
10 costs.

11 Q. It's a percentage where the  
12 retail/wholesale split has been decided. Is that the  
13 same in each state?

14 A. No. The percentage would vary.

15 Q. And what would that be based on?

16 A. As I explained in the workpapers and to a  
17 data request to the staff, we based that upon the  
18 revenue associated with wholesale, and the actual  
19 percentage is really quite large in Illinois as found  
20 on page 18 of my direct testimony, line 286.

21 So, in fact, what that ultimately ends  
22 up representing is that the wholesale market group,

1     if 100 percent of our loops were nothing but a  
2     wholesale UNE loop, those wholesale costs come down  
3     significantly associated with the entire network.

4           Q.    So then the fact that CenturyLink has  
5     eliminated a lot of staff in Illinois and has  
6     actually a lot less direct cost in the State of  
7     Illinois, would that have no impact on a cost study  
8     done for the State of Illinois?

9           A.    I'm not aware of our employment stats  
10    within the State of Illinois historically to be able  
11    to state that.

12          Q.    As a general matter, would it make any  
13    difference?

14          A.    Could you restate the question?

15          Q.    Would it make any difference on the common  
16    costs that are associated with the model, the size of  
17    the costs that are incurred in Illinois versus across  
18    the entire company?

19          A.    For common costs, no, because the way  
20    accounting books are done, those employees that would  
21    be considered part of a common cost would still be  
22    reported into a common cost account whether they sat

1 in Illinois or whether they sat in Monroe, Louisiana  
2 or Kansas City.

3 Q. Would any cost reductions that CenturyLink  
4 had achieved in Illinois have any impact on the cost  
5 study based on any of the input levels?

6 A. Absolutely. We work very hard day in and  
7 day out in our construction work to get the best  
8 contracts we can possibly get, and that is specific  
9 to Illinois, and then any sort of overall  
10 efficiencies that we can create in a company,  
11 particularly that would take place in a department,  
12 that could be part of Illinois as well, and those  
13 show up in the general ledger accounts that are  
14 loaded into our model.

15 Q. Back to common cost for a movement, can you  
16 describe the loading factor and how that works?

17 A. We identify the accounts, the general  
18 ledger accounts that are associated with common costs  
19 and total those up, and we divide by the TELRIC cost  
20 to come up with a percent, and then we apply that  
21 back to the same TELRIC cost as we process the model  
22 to get to all the different sorts of elements in UNE

1 loops.

2 Q. Okay. Is this a standard process you've  
3 done in the time that you've been working on these  
4 kind of issues?

5 A. Yes.

6 So to make it clear regarding those  
7 common costs, to make it clear for those common  
8 costs, they're spread not only across UNE loops but  
9 they're spread across all of the investment which  
10 would include switching and transport as well. So  
11 they're not fully loaded on loops.

12 Q. Okay. Thank you for that.

13 One last question about the Illinois  
14 issue.

15 So as far as you're aware, there are  
16 contractors now performing most of the functions in  
17 Illinois that used to be performed by CenturyLink  
18 employees; is that true?

19 A. Not that I'm aware of. I don't have  
20 knowledge of what would have happened in 2007 or  
21 prior because CenturyTel didn't own the properties.

22 Q. But you're unaware of whether there have

1     been staff reductions as a result of that merger  
2     that -- my point is, are costs coming down in  
3     Illinois due to efficiencies from the merger?

4             A.    Costs in aggregate decrease because of  
5     revenues decreasing, and as a company, we have to  
6     drive to efficiencies so we have to bring our total  
7     aggregate cost down.

8                     But when you look at this process,  
9     which is a unit cost objective, the unit cost is  
10    often higher because the units over which we can  
11    spread those costs are declining at a faster rate  
12    than we can keep up with efficiencies and declining  
13    cost.

14            Q.    Okay.  So then the TELRIC costs are based  
15    on the total number of access lines in use, not the  
16    number of loops that are actually in the field; is  
17    that true?

18            A.    It's the number of working lines.  
19    CenturyLink's working lines are the basis over which  
20    we divide the TELRIC cost.

21                     So in this case, we use 2008 customer  
22    counts which is approximately 51,000 voice grade

1 lines, and in 2010, that had dropped down to  
2 approximately 41,000 voice grade lines. So that  
3 means that cost over which we can recover our costs,  
4 those lines that we can recover our costs have  
5 decreased significantly.

6 Q. So if CenturyLink loses a customer to NTS  
7 or a cable company, the unit costs will effectively  
8 go up because the cost of that loop is not included  
9 in the overall base; is that correct?

10 A. First, I need to correct you that NTS loops  
11 would be included as part of our cost study, but a  
12 cable company loop would not be part of our...

13 Q. Of course. But what I'm asking is if there  
14 were say 90,000 lines that were Madison River that  
15 were in use in the late '90s and now there are, as  
16 you say, 41,000, so, effectively, that loss is  
17 contributing to a higher per unit cost? Is that what  
18 you're suggesting?

19 Essentially, those loops out there in  
20 the field that aren't being used by CenturyLink  
21 customers or a wholesale customer of a CLEC like NTS,  
22 those essentially come off the books, so you're only

1 applying the revenues of your customers that you  
2 actually have versus the total network in field.  
3 Does that make sense?

4 A. I'm sorry. I think I've confused you.

5 Q. Okay.

6 A. The TELRIC, the basis of a TELRIC study is  
7 the total element in the network, and the total  
8 element in the network will be our loops, our active  
9 loops because those are what are available for us to  
10 sell as a UNE or to sell as a wholesale loop.

11 The costs for those 50,000 lines as  
12 I've worked them up in my model today, if they stay  
13 constant but the loops decrease, then the unit cost  
14 goes up, and that's the point that I'm trying to  
15 make.

16 Q. Now, when corporate mergers occur,  
17 typically, one of the things they say at Wall Street  
18 anyway is synergies and efficiencies will result from  
19 the merger.

20 In my mind, that would imply that the  
21 total cost of running a network would go down.

22 Has this not occurred in your opinion?

1           A.    Absolutely it's occurred, and I believe in  
2   our earnings call last week, we recognized the  
3   synergy savings that has come about because of Embarq  
4   and CenturyTel, but if that occurred, of course, and  
5   as in my numbers for 2010, those happen in different  
6   areas of the company depending on how those synergies  
7   come together.

8                       So in the instance of Embarq and  
9   CenturyTel, those synergy savings came about because  
10  of the long distance network that CenturyTel brought  
11  to the companies.   Embarq did not have a long  
12  distance network, and so it was a lot of savings  
13  moving Embarq from the Sprint contract they had to  
14  this CenturyTel long distance network, and those do  
15  flow through to my model.

16           Q.    Okay.   I have a question about the cost of  
17  capital just from my layman's understanding of  
18  capital cost.   I know it's cheaper to refinance my  
19  mortgage now than it would have been eight years ago  
20  when I bought my house.

21                       Is the cost of capital increasing or  
22  decreasing for CenturyLink?



1           A.    A TELRIC model is looking at economic cost  
2   of capital, not what CenturyLink is doing through our  
3   finance and treasury group.  So the cost of capital  
4   from an economic perspective as we lose lines, as  
5   costs increase, actually could be argued that the  
6   cost of capital is increasing.

7           Q.    Okay.  In your testimony, you state that  
8   CenturyLink's retail rates were set through a long  
9   history of regulatory structure.

10                   Are you familiar with any retail  
11   ratemaking proceedings in Illinois for Gallatin River  
12   or CenturyTel, CenturyLink, any of those entities?

13           A.    Can you point me to my testimony?

14           Q.    Bear with me a minute.

15                   It's your direct testimony, line  
16   number starting with the question for 682, your  
17   response starting at line 686.

18                               (Pause)

19           A.    I'm there.

20           Q.    Okay.  So my question is, are you aware of  
21   any Illinois retail rate investigations for  
22   CenturyLink or its predecessor companies in the Pekin

1 area or anywhere else?

2 A. No.

3 Q. Are you aware what the cost of a retail  
4 line for an Illinois customer is right now including  
5 local calling, switching, local area long distance?  
6 Do you know what the typical customer pays?

7 A. I'm sorry. You said cost, not what the  
8 customer pays. So the question?

9 Q. I'm sorry. Pays, what the customer pays,  
10 not what it costs.

11 A. Can you be more specific in what you're  
12 asking?

13 Q. Do you have any idea what the retail rate  
14 is for a typical end user customer to purchase  
15 standard dial tone phone service from CenturyLink?

16 A. Well, in my rebuttal testimony, I had taken  
17 a look at our AR-13 report and stated in there it  
18 came to an average of approximately...and this is a  
19 confidential number.

20 Q. That's okay. We don't need to have that in  
21 the record. That's okay.

22 A. It's roughly twice what the Band 1 rate is.

1           Q.    Okay.  What I'm asking for is do you know  
2   what the retail rate is, not the revenue divided by  
3   customers number, but the actual retail rate, if a  
4   customer calls and says, hey, I'd like local phone  
5   service, what that number would be.

6           A.    We have a myriad of local rates, and we  
7   sell typically to a customer more than just one  
8   retail service, so I don't know, other than the  
9   number that I quoted in my rebuttal testimony.

10          Q.    If you'd go to page 39 of your testimony,  
11   please, your direct testimony.  In response to a  
12   question that is, "Why is comparison of Verizon  
13   pricing a fair test of reasonableness?", your  
14   response is, "Essentially, because loop density is  
15   similar between Verizon and CenturyLink."

16                   Is that still your testimony?

17          A.    Yes.  And I went further on with multiple  
18   other reasonable things to look at in order to  
19   understand that the 2685 Band 1 loop rate is a just  
20   and reasonable rate, and in that comparison, the  
21   strict comparison between AT&T, Verizon, and Gallatin  
22   River, what I'm saying is that we are much closer to

1 Verizon's density than we are to AT&T's density.

2 And you can look at the page, and I  
3 didn't have to do the math to subtract the 48.1 from  
4 28.1 or the 465.9, which is AT&T's, from the 48.1 to  
5 understand that there's a huge difference in  
6 magnitude of densities.

7 Q. Okay. And you'd agree that loop density is  
8 a large factor affecting the cost for the model. Is  
9 that true?

10 A. Loop density is one of the factors that  
11 affects cost.

12 Q. I think your testimony said it's one of the  
13 largest factors affecting cost.

14 A. Loop distance would be a very close second.

15 Q. Okay. But still, based on the information  
16 in the table, CenturyLink has 48 loops per square  
17 mile. Verizon only has 28. So that's almost double;  
18 again, I said I'm not good with math, but  
19 substantially more, far less than 465 of course.

20 Now, if you go up to Table 11 in your  
21 testimony on page 39, the CenturyLink pricing is \$5  
22 more for Band 1 loop, \$13 more for Band 2 two-wire

1 loop, almost \$20 more for Band 1 DS-1.

2 Do you still think that's a fair  
3 comparison to make between CenturyLink and Verizon?

4 A. Absolutely. I think when you bring  
5 Verizon's monthly price, the 21.13, to today's cost  
6 which is comparable to my 26.85, you find that it is  
7 likely to be close to what I show in my rebuttal  
8 testimony at \$30.28.

9 Now, if the Verizon cost of 21.13 is  
10 somewhere newer than what I projected to get to the  
11 20.38, for instance, I looked at it as well as if it  
12 was 2004 cost, and it was still \$27.50 which was  
13 above, it's still above my 26.85, I think it's still  
14 a very reasonable comparison.

15 The only thing that I have for Verizon  
16 is what shows on this page, but the really critical  
17 thing to understand around this is that when I start  
18 my TELRIC study, I don't have an end number in mind.

19 So we process through the inputs  
20 through the model and through the study, and we come  
21 up with our final numbers.

22 Then I sit back and think how can I go

1     about validating those numbers to be sure that I'm  
2     comfortable that they're accurate before I share them  
3     with my management, before I share them with my  
4     wholesaler.

5                     And so I go and I look at my embedded  
6     investment. I TELRIC model results, have lower  
7     embedded investment by 11 percent than what's  
8     actually on my books, and it's 38 percent lower when  
9     I take those embedded investments, and I project them  
10    out for a telephone plan index to what the cost would  
11    be today.

12                    I look at my maintenance cost, and my  
13    maintenance cost and my TELRIC numbers are 11 percent  
14    below what we reported to this Commission in 2010.  
15    Those are significant numbers as well as comparing  
16    with Verizon as well as the numerous other  
17    comparisons that I included which would be other cost  
18    studies that I've done that get me very comfortable  
19    with telling my management and our wholesale group  
20    that 26.85 is the TELRIC for Band 1 in Illinois.

21                    Q.    Okay. Can you explain then, you state that  
22    Verizon's rates are somewhat reasonable given the

1 density numbers.

2 My question is, in your rebuttal  
3 testimony, you take issue with Mr. McClerren's  
4 testimony suggesting that Verizon's rates are  
5 themselves reasonable.

6 Can you explain your difference in  
7 thinking?

8 A. You started out your question by telling me  
9 or stating that I say that Verizon's rates are  
10 reasonable so I think that...

11 Q. I'm sorry. I'm stating your testimony  
12 states that -- I'll go to the exact language. I  
13 don't mean to put words in your mouth.

14 A. And if you could point me to it as well.

15 Q. Sure.

16 It's on page 39 and 40. Section 5,  
17 just and reasonable prices.

18 During the course of your responses to  
19 those questions, it appears you're suggesting that  
20 Verizon's prices are reasonable as it's stated in the  
21 questions themselves.

22 What I'm asking is, can you describe

1 or explain how you come to that conclusion and then  
2 also to the conclusion that Mr. McClerren's testimony  
3 is suggesting that Verizon's rates would be a  
4 reasonable starting point. Explain the difference,  
5 please.

6 A. As an analyst, I would decide that the 2113  
7 is reasonable because this Commission agreed with the  
8 rate of Verizon many years ago in 2005, seven years  
9 ago.

10 So again, as I'm trying to think about  
11 my cost study and the results from it, the 26.85 in  
12 my mind is reasonable compared to a seven year old  
13 number when I know that copper cost, well, back in  
14 2000, copper cost per pound was 80 cents. In 2004,  
15 it was \$1.25. In my cost study, it's \$3 a pound, and  
16 last week it was \$3.81 a pound.

17 So I know how much the costs have  
18 increased, and so perhaps I was light in explaining  
19 in this section that that was my thought process when  
20 I looked at this.

21 Now, when I looked at the 26.85, that  
22 is the TELRIC for CenturyLink in Illinois, and the



1     21.13, which is an old cost for Verizon, that's how I  
2     get comfortable.

3                     So then with Mr. McClerren's testimony  
4     where I take issue is that he concludes that our  
5     rates should be lower simply because this Verizon  
6     number is what it is and our density that's included  
7     in here is lower. I take issue with that because  
8     there are multiple different parameters and metrics  
9     that you need to look at as a cost expert before  
10    you're going to reach a flat conclusion that we  
11    should be below 21.13.

12                    And what's interesting is that  
13    Mr. McClerren had sent a data request to us asking us  
14    if we would be willing to accept Verizon's prices for  
15    two-wire loops and DS-1 loops in this proceeding, and  
16    so it almost seemed at that point that he was  
17    thinking that that was an acceptable level of cost  
18    for CenturyLink yet he ultimately ended up with  
19    something lower based upon what I'm understanding  
20    what he wrote simply because of this density  
21    difference and the fact that the seven year old rate  
22    is lower than CenturyLink's.

1 Does that answer your question?

2 Q. Yes. Thank you.

3 So copper costs, I understand that.

4 So people are stealing various copper plant, meaning  
5 telecommunications network infrastructure.

6 So you're suggesting that the density  
7 is similar. So are the loop lengths similar for  
8 Verizon rate centers versus CenturyLink rate centers?

9 A. I don't know Verizon's. I don't have  
10 anything other than what you see here. This is a  
11 statewide view as well, not just a Band 1 view. It's  
12 being applied in a Band 1 sort of way. The density I  
13 should say is statewide.

14 Q. But you're not familiar with any comparison  
15 with loop lengths between say Verizon, former Verizon  
16 territory and CenturyLink's?

17 A. No.

18 Q. Okay. Now, at page 46 of your direct  
19 testimony, you describe why there are multiple rate  
20 bands under FCC rules for establishing pricing.

21 Would the Commission be fulfilling FCC  
22 rules if it chose to create or suggest that

1 CenturyLink create more than three rate bands?

2 A. No.

3 Q. Okay. I'm done talking about the TELRIC  
4 study and proxy rates mercifully. I want to talk  
5 more generally about NTS if we may and CenturyLink's  
6 position in the arbitration case as a whole.

7 Who would you say has the burden of  
8 proof in the interconnection agreement arbitration?

9 A. CenturyLink is the only party here that day  
10 in and day out constructs telephone plant, that day  
11 in and day out writes checks to pay for that  
12 telephone plant. So CenturyLink has the most cost  
13 information as the FCC realized, and so I've made  
14 every effort possible to open up all of CenturyLink's  
15 Illinois financial information, network information,  
16 to the parties here so they too can evaluate the cost  
17 data.

18 I would say that having done so, staff  
19 got into the model quickly and from the data requests  
20 that we received I can tell was really coming to  
21 grasps and understanding how the cost and the model  
22 came together. They asked some very detailed

1 questions that meant that they were in the model  
2 in-depth.

3 Q. Certainly. I agree.

4 Going to page 6 of your direct  
5 testimony.

6 A. I'm there.

7 Q. Okay. You had said NTS -- this is on line  
8 72 -- never produced a single input number for you to  
9 evaluate against the ones you had created.

10 At the time of those negotiations, was  
11 NTS in possession of the actual cost study model or  
12 just a summary of the findings from the model?

13 A. I don't recall actual dates, but at some  
14 point, they had the model. They had the ability to  
15 open it up, and it's the same user interface that  
16 staff would have used to change inputs and see how  
17 that influenced the final answer.

18 We had to put a nondisclosure  
19 agreement in place, and I vaguely recall that that  
20 took a little bit of time to get worked through, but  
21 in my recollections in talking with Mr. Miri we  
22 talked about the different modules, and I recall

1 asking him to please go to this tab and look at this  
2 particular sale so we could discuss what was  
3 happening within the model in the cost study.

4 Q. Okay. Did Mr. Miri ask specific questions  
5 about the cost factors that were in the model during  
6 those negotiations, do you recall?

7 A. I'm hesitating just so I have an  
8 understanding that what took place during  
9 confidential negotiations are fully open for  
10 discussion in this case. I look to my attorney.

11 MR. DETHLEFS: It's my understanding that the  
12 cost model has been marked or the cost study and cost  
13 model were produced as confidential and proprietary.

14 The negotiations between the parties,  
15 as far as I know, the numbers are the only thing that  
16 would be confidential.

17 MR. TWOMEY: And if I can clarify, I'm just  
18 asking the question to impeach the testimony, not to  
19 disclose any confidential information, and if the  
20 witness feels uncomfortable with answering the  
21 question, I'm free to ask it a different way.

22 JUDGE YODER: Okay. With that understanding

1     then, you can answer, or if you'd like him to  
2     rephrase it perhaps.

3             MR. TWOMEY:   I can rephrase it.

4             THE WITNESS:   If you could ask it again and  
5     then I can let you know how I feel.

6             MR. TWOMEY:    Sure.

7             Q.   Without discussing any particular questions  
8     raised during those conversations, did Mr. Miri ask  
9     any specific questions about specific costs that were  
10    in the study, without identifying what they were?

11            A.   We discussed specific lines in the study,  
12    but he never brought forward and said, for that  
13    particular line, I think this is more a  
14    forward-looking number that should be included in the  
15    cost study.  I loaded that number, and I reviewed the  
16    results and feel like this gets me closer to what I  
17    believe the TELRIC to be.

18            Q.   Okay.  Did NTS have possession of the  
19    numbers that you used to create those line items that  
20    Mr. Miri was questioning?

21            A.   Yes, he did, and I recall very clearly on  
22    the phone talking with him, explaining go to this tab

1 and here is where you will see those starting numbers  
2 that then feed back into the subsequent tabs of the  
3 model.

4 Q. Okay. Not going too far back but this  
5 reminds me of a question I wanted to ask.

6 Telephone poles or utility poles with  
7 telephone and electric lines on them, in the cost  
8 study you developed, is the assumption that those  
9 poles are 100 percent owned by CenturyLink or are  
10 they partially owned by electric companies or how did  
11 that math work into the equation?

12 A. Within the input of developing the  
13 investment for poles, there is a value for the  
14 percent that is company-owned versus non-telephone  
15 company-owned. So as the model processes, it reduces  
16 that investment amount to recognize that.

17 Moreover, in the expense side of it  
18 when we are calculating the maintenance cost for  
19 poles, we subtract out revenue associated with pole  
20 rentals, and we add in the cost that we pay for pole  
21 rentals to come up with a net accurate maintenance  
22 cost.

1           Q.    So I understand from your answer that the  
2   model is capable of handling this kind of  
3   information.

4                   Did CenturyLink, when creating the  
5   numbers, take into consideration what percentage were  
6   CenturyLink owned, what were let's say perhaps  
7   electricity company owned that were leased by  
8   CenturyLink versus those that were solely owned by an  
9   electric company?

10          A.   Yes, and there was a workpaper provided  
11   associated with that as well, and the input into the  
12   model work reflects that.

13          JUDGE YODER:   Stop for one second.   We can hear  
14   a phone going off.   Let's go off the record for a  
15   second.

16                               (Whereupon an off-the-record  
17                               discussion transpired at this  
18                               time.)

19          JUDGE YODER:   Back on the record.

20                   You are done with your cross?

21          MR. TWOMEY:   I have no further questions, and  
22   thank you for your patience.



1 JUDGE YODER: Okay. Mr. Lannon?

2 MR. LANNON: Yes. Thank you, Your Honor.

3 Welcome to Illinois, Ms. Londerholm.

4 THE WITNESS: Thank you.

5 MR. LANNON: I know you haven't been here  
6 before. I hope you enjoy your time here.

7 CROSS-EXAMINATION

8 BY MR. LANNON:

9 Q. Could you turn to page 5 of your rebuttal,  
10 please?

11 Rather than risking misparaphrasing  
12 you, if that's a correct terminology, I'm just going  
13 to read a few sentences here okay?

14 Starting down at line 61, page 5 of  
15 your rebuttal testimony, you state, "A shorter copper  
16 loop length only has increased functionality and  
17 costs once incrementally electronics are added to the  
18 loop. Absent incremental electronics, there is no  
19 increased functionality and cost. CenturyLink did  
20 not include any additional electronics to increase  
21 functionality or cost of a two-wire loop beyond that  
22 required by the FCC to provide voice grade loop

1     functionality."

2                     Is that your testimony? Did I read  
3     that right?

4             A.     Yes.

5             Q.     Does an 18,000-foot CSA, and that's carrier  
6     service area, does an 18,000-foot CSA design provide  
7     voice grade loop functionality?

8             A.     Yes, it can.

9             Q.     And assuming no incremental electronics are  
10    added, is there, with respect to two-wire loops, any  
11    difference in functionality between 12,000-foot CSA  
12    design and an 18,000-foot CSA design.

13                    Would you like me to ask that again?

14             A.     Please. Thank you.

15             Q.     Assuming no incremental electronics are  
16    added and regarding two-wire loops, is there any  
17    difference in functionality between a 12,000-foot CSA  
18    design and an 18,000 foot CSA design?

19             A.     No, not without increased electronics  
20    associated with the loop. 18,000 feet would look  
21    like 12,000 feet CSA design, from a CSA design  
22    perspective.

1           Q.    Okay.  Moving on to page 6 of your  
2    rebuttal, I think it's starting on line 83, you  
3    state, "As I discussed below, CenturyLink does  
4    allocate the DLC, and that's digital loop carrier,  
5    investment, and to be clear, the 25 percent  
6    allocation ordered in 02-0864 was applied to DLC  
7    common equipment only."

8                       Did I read that right?

9           A.    That's correct.

10          Q.    Okay.  Does CenturyLink provide DSL service  
11    using its existing loops?

12          A.    In our retail side of our company, yes,  
13    would he do, but the effort here is for TELRIC.

14          Q.    And did CenturyLink allocate any of its  
15    loop costs to DSL service in your TELRIC model?

16          A.    It would be inaccurate for us to have done  
17    so because we don't include the incremental  
18    investment associated with the services in my TELRIC  
19    model to provide DSL, so there's nothing to allocate  
20    to DSL.  We don't include a DSLAM specifically  
21    because the FCC says don't include DSLAM.  You cannot  
22    provide DSL without DSLAM investment.

1           Q.   And are the costs that CenturyLink relies  
2   on for its proposed rates in this proceeding based  
3   upon an allocation of at least 25 percent of DLC  
4   investment to common DLC equipment?

5                   I can read that again for you.

6           A.   Thank you.

7           Q.   Are the costs that CenturyLink relies on  
8   for its proposed rates in this proceeding based upon  
9   an allocation of at least 25 percent of DLC  
10   investments to common DLC equipment?

11          A.   I'm not sure I understand your question  
12   that we would allocate DLC investment to common DLC  
13   equipment.

14          Q.   Well, maybe this is a better way of going  
15   about this.

16                   I'm sorry. Did I interrupt you?

17          A.   I was going to explain that the DLC is a  
18   physical piece of plant out in the network, and the  
19   common equipment is the box that we're talking about  
20   in that as a function of that piece of equipment.

21                   So the DLC investment itself includes  
22   both common and the other equipment that actually

1 goes inside the cabinet. So those are sort of the  
2 two pieces that might help us to talk through the DLC  
3 equipment out in the field.

4 Q. Okay. So going back to your statement on  
5 line 6 starting on, or excuse me, on page 6 starting  
6 on line 83 in your rebuttal, the 25 percent  
7 allocation that you reference and state was applied  
8 to DLC common equipment only, that would be the  
9 common equipment you just referenced, explained?

10 A. That would be correct. It would be like  
11 the cabinet piece of that, and my understanding from  
12 this other docket is that that piece of common  
13 equipment is what was ordered to be 25 percent  
14 allocated away to something else leaving 75 percent  
15 in the cost study. That's my understanding.

16 Q. Just so I'm clear then, the incremental  
17 electronics that I suppose are contained within the  
18 DLC common box, that would be 75 percent of your  
19 investment? Or excuse me. You would allocate 75  
20 percent of your investment for the electronic  
21 component of the DLC?

22 I'm trying to understand once again

1     that one statement.

2             A.     So I'll go back to my prior explanation.

3                     So there was 100 percent -- we would  
4     call it a box. We put the box out there which  
5     includes the cabinet plus what goes inside the  
6     cabinet. At that point we're at 100 percent. There  
7     is no incremental investment in my TELRIC study that  
8     goes inside that box to allow any DSL service. It's  
9     strictly what's needed in order to provide the UNE  
10    loops that the FCC requires us to have.

11                    So at that point, I have a hundred  
12    percent investment, and then that investment gets  
13    spread across the different kinds of UNE loops that  
14    the FCC requires. So the two-wire loops that I have  
15    in my model, and as I explained later, the two-wire  
16    loops end up with 77 percent from that 100 percent  
17    investment.

18                    Did that clear it up?

19             Q.     Well, where would the -- yes. Thank you.  
20    Not completely, but we'll let it go. It's probably  
21    my dense thinking rather than anything else?

22                    Why don't we turn to page 7 please of

1     your rebuttal once again starting on line 93 where  
2     you state, "The 12,000-foot CSA design shortens the  
3     copper in the network which results in lower unit  
4     costs while remaining true to the FCC's requirement  
5     for the most efficient telecommunications technology  
6     currently available."

7                     Did I read that correctly?

8             A.     Yes.

9             Q.     Does an 18,000 foot CSA design lengthen the  
10     copper in the network relative to a 12,000-foot CSA  
11     design?

12            A.     Yes, it does, and it's a backward looking  
13     technology as well.

14            Q.     And does an 18,000-foot CSA design reduce  
15     the loop cost produced by the model relative to a  
16     12,000-foot CSA design?

17            A.     It reduced the loop cost in some of the  
18     wire centers we studied but not in all of the wire  
19     centers.

20            Q.     And turning to page 10 of your rebuttal,  
21     line 155, I believe you state, "The network  
22     configuration, i.e. the design of the cable and

1     electronics, should produce the lowest unit cost  
2     while also having the most efficient  
3     telecommunication technology," correct? Did I read  
4     that one right?

5             A.    Yes, you did.

6             Q.    And to me, that implies that when you're  
7     assessing efficiency, you're not assessing cost. Is  
8     that correct?

9             A.    It's correct that it is a two-part process.

10            Q.    Separate?

11            A.    Both processes need to be met in order to  
12    meet the FCC requirements at it's lowest cost network  
13    configuration, most efficient technology, and as the  
14    FCC pointed out...

15            Q.    Well, hold it. Hang on because you're  
16    losing me already.

17            A.    Sure.

18            Q.    Sorry. My fault.

19                    You said it's a two-part process? Was  
20    that the word you used?

21            A.    That was the word I used.

22            Q.    Okay. And what are those two parts? Is



1 one efficiency like engineering efficiency and is the  
2 other a cost-based process?

3 A. Yes. One is the engineer, the efficient  
4 engineering technology, the technology that's going  
5 to be used in the network that's the most efficient  
6 to put out there, and the other is understanding then  
7 the lowest cost technology that's associated as well.

8 So they touch each other, and trying  
9 to meet both of them is what the FCC requires, and  
10 the 12,000-foot CSA design which is a forward-looking  
11 design, it's a least cost technology, versus an  
12 18,000 foot which is a backward technology, it's not  
13 what we focus on in our network today. It's not what  
14 any ILEC would focus on in their network today, and  
15 the cost difference in processing those two is  
16 relatively the same, and so...

17 Q. Well, let me ask you. In your two-step  
18 process, what are the non-cost based criteria?

19 I think you were talking -- you spoke  
20 about it in terms of technology I believe?

21 A. Technology and network configuration. So  
22 there's the process that my model uses to say here's

1 the central office and here's the customer locations,  
2 and so it redesigns the cable and wire between those  
3 in order to get the sheath feet distance lower which  
4 is 36 percent lower in my TELRIC study than our  
5 embedded network has, so that's an efficient network  
6 configuration.

7 Q. In a total, you know, combining the  
8 two-step process, looking at both of those in the  
9 total, couldn't an 18,000 foot design be more  
10 efficient than a 12,000-foot design depending upon  
11 how much, how many electronics you have to add?

12 A. The 18,000 feet is counter to the FCC's  
13 requirement of a forward-looking network design.

14 Q. Can you explain that to me because, you  
15 know, I know what you mean by forward looking. You  
16 don't go back to an actual network, right? You're  
17 using an imaginary network, but why would the  
18 18,000 feet necessarily be backward looking while the  
19 12,000-foot design is necessarily forward looking?  
20 Is that true in all cases or do they depend upon the  
21 circumstances?

22 A. The FCC...

1           Q.    I'm sorry, Ms. Londerholm.  I can read the  
2   FCC orders later, but can --

3           A.    But...

4           Q.    Go ahead.  I'd really like your opinion  
5   though.

6           A.    I wanted to get to the right place in my  
7   testimony.

8           Q.    Okay.

9           A.    The FCC was driving towards market-based  
10   type of price which would be a forward-looking  
11   economic cost, meaning that a competitor next to  
12   CenturyTel could come in and rebuild the same network  
13   with the same information that we have today with  
14   costs today and efficient design today at the same  
15   cost and come up with the same cost numbers that we  
16   have.

17          Q.    Okay.  Let me just follow that.

18                    You mean a competitor would come in  
19   and build a network that would be better than your  
20   network, right?  It would be newer, more efficient,  
21   but your network would be older, less efficient, but  
22   your TELRIC model would be equal to the actual newer

1 network. Is that right?

2 A. That's correct.

3 If you'll give me just a moment.

4 (Pause)

5 A. On page 36 of my rebuttal testimony, I  
6 quote I think an important section of the FCC in  
7 trying to explain this.

8 When they decide that they want  
9 forward-looking economic cost to meet the goals of  
10 the 1996 act, they state that in a dynamic  
11 competitive market, firms take action based not on  
12 embedded cost but on the relationship between  
13 market-determined prices and forward-looking economic  
14 costs, and it goes on and I won't read it.

15 But the concept would be that my  
16 competitor isn't going to be building an 18,000 foot  
17 CSA design. My competitor is going to be building a  
18 forward-looking network design which would be  
19 12,000 feet, and that's the concept throughout the  
20 first report and order, etc., that comes out that the  
21 FCC was wanting.

22 And it goes further on too that the

1 new entrants should be making their decision to  
2 purchase unbundled elements or to build their own  
3 facilities based upon the relative economic cost of  
4 these options.

5 Q. Well, tell me, why would a competitor  
6 necessarily, when they're building their new  
7 forward-looking network, why would they necessarily  
8 want to always use the 12,000-foot CSA design?

9 And if you want -- let me just add  
10 another question subject to your attorney's  
11 objection, but would the 12,000-foot CSA design  
12 always be the most efficient?

13 A. The process here is a TELRIC model to  
14 redesign, reconstruct the network between the central  
15 office and the end user customers, and that process  
16 requires input values.

17 Q. All right. But let's stop right there.

18 When you say design a network between  
19 a central office and TELRIC customers -- is that what  
20 you said?

21 A. Yes.

22 Q. That's the end user customer, right?

1           A.    That's right.

2           Q.    Okay.  Now, they're in place right now,  
3  right?

4           A.    That's correct.

5           Q.    So this is what I'm getting back to.  Why,  
6  considering that there's all kinds of configurations  
7  right now in your network and density issues and end  
8  users here and there, everywhere spread out, why  
9  would it always be that a 12,000-foot CSA design is  
10 better than an 18,000 foot CSA design?

11          A.    Setting aside the FCC set a 12,000-foot CSA  
12 design is an appropriate one to use for a TELRIC  
13 model, copper cable today, home-run copper cable is  
14 very expensive.

15          Q.    Yes.  We heard you explain...

16          A.    Let me take that further.  X dollars  
17 (confidential) for a mile of copper.  And so the  
18 customers that I think you're thinking about most are  
19 the customers on the fringes.  These are the folks  
20 way out on the fringes.

21          Q.    That's right.

22          A.    And so to reach those customers, they're

1 generally miles and miles away from the central  
2 office.

3 So if I have to build copper cable,  
4 home-run copper cable at X dollars (confidential) a  
5 mile six miles out to a customer, it's inefficient to  
6 do that. That's a second network as well that  
7 overbuilds within a wire center.

8 Q. Well, let me ask you, relative to the X  
9 dollars (confidential) to go out the mile...

10 A. And that's a confidential number. Let me  
11 also say that.

12 Q. Oh, I'm sorry.

13 A. No, I stated it first. I would like to  
14 make the record clear it's a confidential number.

15 Q. Rather than X numbers of dollars  
16 (confidential) to go out to that fringe customer,  
17 couldn't you just invest in some electronics that  
18 would serve multiple customers with an 18,000 foot  
19 design? That is...

20 I'm sorry. Do you understand the  
21 question? I think I've confused myself.

22 A. I think what you're suggesting is not

1     home-run copper loops but a digital loop carrier but  
2     just closer into the central office.

3                     But those fringe customers, there's  
4     still not very many of them, and they are the  
5     fringes. I think it's really important to understand  
6     that our effort here is unit cost. So we take input  
7     values across multiple areas, including specific  
8     customer locations, so we end up with our investment  
9     pretty much at a customer location. We average that  
10    up to the digital loop carriers. We average that up  
11    to the central offices. We average the central  
12    offices up to the different bands, so by the time you  
13    do that work, those fringes don't really have a  
14    significant impact on the results.

15                    And so when I am working with my  
16    TELRIC model and my staff, we work as efficiently as  
17    we can, and for us to take the time to reengineer for  
18    the fringes, it just wouldn't influence the answer  
19    enough to say that this is not a TELRIC compliant  
20    cost.

21            Q.     Okay. Now, you emphasized you're looking  
22    at unit cost, correct? That was part of what you



1     just said, right? I think it started off as  
2     something along those lines.

3             A.    That's what this effort is about.

4             Q.    That's what this effort is about.

5                     Now, isn't it true that 18,000 feet,  
6     or excuse me, 18,000-foot CSA design produces lower  
7     unit costs than the 12,000-foot CSA design?

8                     And let's just take this. Band A,  
9     wouldn't that be true in Band A?

10            A.    Band 1, which went from four wire centers  
11     down to three, had a slightly lower unit cost, but  
12     you give up the forward-looking technology that's  
13     required by the FCC in doing that.

14            Q.    All right. First of all, I apologize for  
15     Band A, B, C. I guess Illinois Bell influenced us  
16     all more than we hope.

17                     But what are you giving up -- you  
18     mentioned you give up the forward-looking technology,  
19     but what exactly are you giving up?

20            A.    You give up any possible innovations that  
21     can take place. That's also part of what the FCC was  
22     looking for in opening up the network back in 1996.

1           Q.    So this would be a very forward-looking  
2   exercise, right?  You're talking about innovations  
3   that haven't taken place, is that correct?

4           A.    12,000-foot CSA design is not a gold-plated  
5   network.  It's been around for over 20 years.  
6   Customers who want band width want lots of band  
7   width, and so CSA designs today are often at  
8   3,000 feet and 5,000 feet.  They're not even  
9   necessarily 12,000 feet.  12,000 feet will get the  
10   voice grade TBM features that TELRIC and the FCC  
11   require.

12          Q.    I'm going to move on now.  Thank you for  
13   your patience.  It's kind of a hard thing for me to  
14   wrap my mind around.

15          A.    And I want very much to be open and clear  
16   with the Commission...

17          Q.    You're doing a great job.

18          A.    ...in explaining where our position is on  
19   the subject.

20          MR. LANNON:  I think you're doing a great job.

21                   I want to ask about some confidential  
22   information.  Should we go off the record for a

1 minute, Your Honor?

2 JUDGE YODER: Sure.

3 (Whereupon an off-the-record  
4 discussion transpired at this  
5 time.)

6 JUDGE YODER: Back on the record.

7 MR. LANNON: Thank you, Your Honor.

8 Ms. Londerholm, I have a few more  
9 questions.

10 Q. We're done with your response to  
11 Dr. Zolnierrek, and we're still on your rebuttal, so  
12 could you turn to line 449 which would be on page 24.  
13 Starting at line 449, you imply that  
14 Mr. McClerren is applying an old-fashioned rate of  
15 return standard in assessing the appropriateness of  
16 just and reasonableness as far as the CenturyLink  
17 TELRIC rates are, is that correct?

18 A. That's correct.

19 Q. Okay. Does Mr. McClerren ever testify  
20 about any analysis he did regarding the revenue  
21 requirement?

22 A. No.

1           Q.   Does he ever testify that he determined a  
2   rate base?

3           A.   No.   The only thing --

4           Q.   Did he offer an allowed rate of return?

5           A.   It could be implied I suppose that he --

6           Q.   Well, did he calculate operating expenses,  
7   depreciation, taxes?

8           A.   No.

9           Q.   The other things that are all done in an  
10   old-fashioned rate of return case?

11          A.   No.

12          Q.   Okay.  At line 474, you state this is an  
13   important nuance as the existing rate has no basis in  
14   cost, correct?

15          A.   Correct.

16          Q.   Do you agree that the rates that are  
17   currently in effect between Gallatin or Madison River  
18   and NTS were the result of negotiation in '06 I  
19   believe, is that right?

20          A.   That's my understanding.

21          Q.   Okay.  And is it your understanding that  
22   parties to a negotiation will represent their own

1 best interest when representing rates like they did  
2 in '06?

3 A. Under normal circumstances, that would be  
4 correct.

5 Q. And you're not testifying that Madison  
6 River had no idea about its cost in 2006 when it  
7 agreed to the existing rates with NTS, are you?

8 A. Could you restate the question again?

9 Q. Sure.

10 You're not testifying or it's not your  
11 testimony that Madison River had no idea regarding  
12 its costs when it negotiated and agreed to the  
13 existing current rates with NTS back in 2006?

14 A. I would agree that it's not my testimony to  
15 say that because I was not a party to anything back  
16 in 2006, but when I look at this 17.93 rate and  
17 understand the property in Illinois, I do not believe  
18 that any rational cost work was done to develop that  
19 number. I've worked with cost work for a long time.

20 Q. So that would leave irrational negotiating  
21 on the part of at least one of the parties?

22 A. It would leave certainly things outside the

1 scope of what I would understand.

2 Q. Okay. Now, at line 519, you state loop  
3 density is one of the largest factors affecting cost.  
4 Actually, Mr. Twomey touched on this already. And  
5 you indicate that you do not agree with  
6 Mr. McClerren's position that the higher the loop  
7 density per square mile, the shorter the average loop  
8 length would be, and I think you indicate that you've  
9 got to also address dispersion in that analysis, is  
10 that correct?

11 A. That is correct.

12 Q. Okay. Assuming all you knew was that  
13 Company A had 70 percent more loops per square mile  
14 than Company B, which would you expect to have longer  
15 loop lengths?

16 A. That information does not give me enough  
17 knowledge to make any conclusions around loop  
18 distances.

19 As I show on the table in the next  
20 page, they're not related. Pekin and North Pekin as  
21 I show -- and it's confidential, I won't say the  
22 numbers -- are very close in costs but their average

1     loop lengths are quite different.

2           Q.    Okay.  I'm trying to think how to get  
3     around the confidentiality here, but going back to my  
4     question, what else would you need to answer the  
5     question?

6                   And if you'd like, I would be happy to  
7     reread you the question.

8           A.    Let me state what I think I understand you  
9     to have said.

10                   I have Company A that has 70 percent  
11    more loops per square mile than Company B.

12           Q.    Right.

13           A.    And you've asked me what I can conclude  
14    about loop distances knowing that one fact.

15           Q.    Well, which one would you expect to have  
16    longer loop lengths?  Isn't there an expectation that  
17    one would have longer loop lengths than the other?

18           A.    No.  I have worked with costs at very  
19    discrete levels enough to know that it can go both  
20    ways.  The more dense one can have longer loop  
21    lengths.  And we're talking loop lengths?

22           Q.    Right.

1                   Would you agree with me that normal  
2   telephone plant construction has a central office  
3   near the center of an exchange's largest town with  
4   facilities radiating out in a hub-like architecture,  
5   in a hub and spoke architecture, isn't that correct?

6           A.   No, not necessarily, and frankly, not as  
7   often as you would think because the central offices  
8   have been built quite some time ago.

9           Q.   Right.

10          A.   And as good as my engineers are, the  
11   construction of the city itself can go completely  
12   different than where the central office location is,  
13   so it's not uncommon for me to see where a central  
14   office will be placed next to like a river because  
15   that was the initial hub of the city, but the  
16   exchange could be huge and it could have gone way far  
17   south where people decide to live and perhaps not  
18   north, and so then it can get skewed with how it's  
19   worked.

20                   Perfect world, had everybody had  
21   foresight and the telephone company could have  
22   selected where people could live, that's what we



1       would have done.

2               Q.    I don't want to beat this too much, but  
3       when telephone companies were first building their  
4       network, towns tended to grow out more radially than  
5       they do now.  I think if you look east of the  
6       Mississippi, you see many more downtowns that expand  
7       concentrically out from that downtown area.  Of  
8       course, there are geographic features like you said.  
9       Chicago has the lake and rivers, etc. but wouldn't  
10      you agree with that as a general matter that that is  
11      where the hub and spoke design would have come from?

12             A.    I would agree that within some proximity of  
13      the central office you will see absent some density  
14      just right there with the central office, but I will  
15      point you to page 30 on my direct testimony where  
16      I've included a map of the Dixon exchange, and you  
17      can see where the central office is with that red  
18      dot.

19             Q.    Uh-huh.

20             A.    But if you look up to the northeast, you  
21      can see where there's some lines up there.  Well,  
22      those are streets, so that's where customers have

1 built within my Dixon exchange which is a very large  
2 square footage. It covers 111 square miles, and so  
3 it's very large.

4 Q. Okay. Let's move on, and once again, turn  
5 to page 28. We're going to go back to that table 2,  
6 and that's confidential. I am going to try to talk  
7 around it, but if I'm going too close to  
8 confidentiality, just let me know or your attorney  
9 can let me know.

10 Table 2 represents four wire centers,  
11 correct?

12 A. Correct.

13 Q. And those wire centers have a great  
14 variance in density, loop length and geographic area,  
15 correct?

16 A. Correct.

17 Q. And those four wire centers are all  
18 CenturyLink, correct?

19 A. These four wire centers are the 12,000-foot  
20 Band 1 wire centers so it's interesting to see at  
21 Pekin if you look at the density line versus the Band  
22 1 in total.

1           Q.    You may have already answered this  
2   question, going back to Mr. Twomey's question, but  
3   did you do any analysis for Verizon exchanges like  
4   the Table 2 analysis you did, Verizon Illinois  
5   exchanges?

6           A.    Can you point me to the Table 2 analysis?

7           Q.    Oh, we're still at page 28 of your  
8   rebuttal.

9           A.    Oh, I do not have detail for the Verizon.  
10   All I have for Verizon is their statewide density  
11   number and then their Band 1 UNE loop rate for  
12   two-wire loops from seven years ago.

13          Q.    And I think that's exactly what you  
14   testified to earlier.

15                    So you couldn't have made the same  
16   comparison for Verizon at CenturyLink wire centers in  
17   Illinois, could you?

18          A.    No, and I don't know that I would have had  
19   any reason to do so.

20          Q.    Okay.  Let's move on a little bit.  Line  
21   533 starting with "It should be easy to conclude that  
22   Verizon's density could indeed be less while their

1 costs could be equal or less than CenturyLink's,"  
2 that's your testimony, correct?

3 A. That's correct. Anything is possible.

4 Q. So the opposite, the converse would also be  
5 correct?

6 A. It's possible. The statistic above that is  
7 also I think very important. When you look at the  
8 185 wire centers that Verizon had to average into the  
9 Band 1 versus the four wire centers that CenturyLink  
10 has, that makes a difference in how the cost dynamics  
11 are going to come out as well because the 185 is  
12 likely to have Verizon's most dense weighted to a  
13 lower cost.

14 Q. All right. Let's look at a part of what  
15 you were just talking about there.

16 On line 552, you say, "There's not a  
17 simple linear relationship between density and  
18 two-wire loop costs."

19 And then you say Verizon -- well,  
20 strike the word Verizon.

21 Did I read that correct?

22 A. Could you point me to the line, please?

1           Q.    Yes.  It's line 532 on page 28 of your  
2  rebuttal.

3           A.    532.  "There is not a simple linear  
4  relationship between density and two-wire loop  
5  costs."

6           Q.    You know what?  I'm really sorry.  I was  
7  reading the wrong line.  You've already answered that  
8  part.

9                       If we could move to line 552 on page  
10  29, and I'm going to paraphrase you here.  I believe  
11  you testified that relative to the central office,  
12  CenturyLink's 48 customers could all be located at  
13  the edge while Verizon's 28 customers could be  
14  located close in, correct?  Isn't that what you're  
15  saying?

16          A.    In that particular section of my testimony,  
17  I'm just giving an example of what could possibly  
18  happen.

19          Q.    Yeah.  And the converse could also be true,  
20  correct?

21          A.    Yes.

22          MR. LANNON:  Okay.  Thank you very much,

1 Ms. Londerholm. I appreciate your forthrightness.

2 JUDGE YODER: You're done, Mr. Lannon?

3 MR. LANNON: Yeah, I'm done.

4 JUDGE YODER: You want to talk to your client

5 for a minute?

6 MR. DETHLEFS: Sure. What time -- how are we

7 doing timewise?

8 JUDGE YODER: It's 12:11. If you have a lot,

9 we can take a break now.

10 MR. DETHLEFS: Let's take a break now if we

11 could.

12 MR. LANNON: A lunch break you mean?

13 MR. DETHLEFS: Yeah.

14 JUDGE YODER: All right. Why don't we try and

15 be back about 1:15 then, and you'll have a chance to

16 talk to your client.

17 (Whereupon the lunch recess was

18 taken.)

19 JUDGE YODER: Back on the record in 11-0567.

20 Ms. Londerholm, you are still under

21 oath.

22 Do you have any redirect for your

1 witness, Mr. Dethlefs?

2 MR. DETHLEFS: I do, Your Honor.

3 REDIRECT EXAMINATION

4 BY MR. DETHLEFS:

5 Q. Ms. Londerholm, you were asked some  
6 questions concerning what information had been  
7 provided to the other parties concerning the cost  
8 model and I'd like to ask you what exactly was  
9 produced in this proceeding concerning the cost  
10 model?

11 A. There was a CD that was given to the  
12 parties that included the loop cost model, the  
13 economic cost model which is comprised of the other  
14 direct cost, the annual charge factor, the loop  
15 summary module and the input module.

16 Also on that CD was a folder called  
17 "Documentation" that included how to process the  
18 model. It included the flow in the loop model of how  
19 it processes its different parts. It included  
20 documentation that actually showed all of the  
21 algorithms in that loop model. There was a folder  
22 called workpapers that included how the material cost

1     that was used in the loop model was developed. Five  
2     or six Excel documents in the work papers associated  
3     with how all the inputs were worked up as inputs into  
4     the model.

5                     In addition, there was quite a bit of  
6     discovery from staff as I said earlier. I mean, they  
7     really got into the model, and they asked a number of  
8     questions down to a terminal level almost within the  
9     modeling process.

10                    And then in addition in my testimony I  
11     included, to help the parties understand, I broke out  
12     the investment by different plant types. I included  
13     the two wire investment on a per line basis. I  
14     included Band 1 two wire monthly recurring cost  
15     across the different plant types as well as across  
16     the different expense categories. I included an  
17     exhibit to my direct testimony, 2.1, that also  
18     explained the methodology around the annual charge  
19     factor, the other direct cost, the common cost, and  
20     the module.

21                    Q.    Okay. There was some questioning by both  
22     staff and NTS concerning digital loop carriers.



1                   Did you in your direct testimony  
2   include detail that shows how much the cost of  
3   digital loop carriers is in the unit loop price?

4           A.   Yes.  It's one of the tables that I  
5   mentioned as a part of the documentation to the  
6   parties.  It would be on page 23 of my direct  
7   testimony, line 63.  DLCs would be included in that  
8   figure that's found in column D; so column D, line  
9   63.

10          Q.   So to be clear, the DLCs are included in  
11   the line item circuit electronics, XXX  
12   (confidential)?

13          A.   That's a confidential number.

14          Q.   Oh, I'm sorry.

15          A.   It's included in that, yes.  The Cell D,  
16   53.  That's for two wire Band 1, and line 69 is not a  
17   confidential number.  That's the 26.85 that we've  
18   been talking about, and so I included the composition  
19   in this schedule of piece parts to the 26.85  
20   including the circuit electronics that includes the  
21   DLCs.

22          Q.   Are there any other circuit electronics

1       besides the DLCs in that number?

2           A.    Yeah, there's some electronics associated  
3       with the central office.  The DLCs come into the  
4       central office as well.

5           Q.    You were asked some questions very early on  
6       concerning a situation where you have a customer with  
7       a loop that goes to a DLC that in turn goes to a  
8       remote switch, and then ultimately the path goes to a  
9       host switch.

10                   For purposes of calculating the TELRIC  
11       loop cost, what are the end points in your  
12       calculation?

13           A.    The end points are the switch location,  
14       whether it's a remote switch or a host switch, and  
15       the customer plant.

16                   So in your example, the customer to  
17       the DLC, the DLC to a switch is the total loop  
18       distance.

19                   The customer location to the DLC would  
20       be the distribution portion of the plant.  The DLC to  
21       the switch is the feeder portion of the plant.

22           Q.    Is the plant from the remote switch to the

1 host switch considered part of the loop cost in your  
2 analysis?

3 A. No, it is not.

4 Q. And do all the remote switches that  
5 CenturyLink has have MDFs?

6 A. Yes.

7 Q. What's MDF stand for?

8 A. It's the main distribution frame for the  
9 switch itself.

10 Q. Now, there were some discussions concerning  
11 the Verizon Band 1 loop rate in Illinois, and you  
12 were asked a number of questions about that.

13 Could you explain how you think the  
14 Verizon loop rate bears on this proceeding?

15 A. The reason that I included that in my  
16 testimony was a validation point, so I'm not  
17 suggesting in any way that CenturyLink's cost should  
18 be equated with Verizon's. I recognize that the data  
19 that we have before us, which is older data,  
20 demonstrates that Verizon's density is less than  
21 CenturyLink's. The cost CenturyLink puts forward  
22 today with today's cost is higher than Verizon's.

1                   So as a validation, the 21.31 that is  
2   Verizon's rate should be looked at at today's cost,  
3   and I was not a party to the Verizon case, and so  
4   whether it was 1999 cost or 2003 cost, I'm not  
5   exactly sure, but the cost in either of those cases  
6   when I use 2004 as a possible cost basis and index it  
7   forward, it increases there 21.31 to 27.50. If I use  
8   2000, it comes up to 31.28.

9                   So it validates it even more in my  
10   mind when I do that work to say CenturyLink 26.85 is  
11   a valid, just and reasonable cost for CenturyLink in  
12   Illinois.

13           Q.   You were asked some questions concerning  
14   the relative loop lengths and density as between  
15   CenturyLink and Verizon.

16                   Can you --

17           A.   Loop lengths and density don't have a  
18   direct relationship. As I put in my testimony, the  
19   dispersion of the customers will make a difference as  
20   well, and I don't have Verizon's data on their loop  
21   lengths in order to do that sort of a comparison, so  
22   the loop lengths don't come into play in the

1 validation of what I'm trying to do with  
2 CenturyLink's 26.85 two-wire Band 1 loop cost.

3 If I'm concerned about loop distances,  
4 I'm looking at the sheath feet that my model produces  
5 which is 36 percent less than what my embedded sheath  
6 feet are, and that's the distance that needs to come  
7 into play in validating distances.

8 But the density overlaid with loop  
9 distances of another carrier, I've never attempted  
10 that because I just don't have the information to do  
11 that.

12 Q. Why don't you believe that loop density and  
13 loop length are related?

14 A. Because I've seen many instances where, and  
15 I point out in my testimony, where the distances can  
16 be greater and the density, and the relationship,  
17 they don't coincide with each other.

18 MR. DETHLEFS: Your Honor, I believe that's all  
19 the redirect I have.

20 At this time, I'd move  
21 Ms. Londerholm's exhibits into evidence, CenturyLink  
22 2.0, 2.1, 3.1, 3.2 and 3.3.

1 JUDGE YODER: All right. And just let me find  
2 my, just to be clear --

3 MR. LANNON: Your Honor, I'm sorry to  
4 interrupt.

5 JUDGE YODER: Recross?

6 MR. LANNON: Yes, I would. One question,  
7 please.

8 JUDGE YODER: Well, let's starts with  
9 Mr. Twomey.

10 Did you have any recross since you  
11 went first?

12 MR. TWOMEY: Yeah, I have one question too.  
13 That's all.

14 RECROSS-EXAMINATION

15 BY MR. TWOMEY:

16 Q. You had discussed the cost of copper  
17 rising, the confidential number.

18 The cost of labor, you said it  
19 increased? Is that also true?

20 A. Labor increases every year as well. People  
21 require raises. Health care benefits become more  
22 expensive. Workers' Compensation becomes more

1 expensive.

2 Q. Can I ask you the cost of equipment in the  
3 network?

4 A. I'm sorry.

5 Q. Sure. Go ahead.

6 A. You mentioned the confidential numbers of  
7 copper. The one number I mentioned is confidential,  
8 but in looking at just the cost per pound from 2000  
9 to last week, it went from \$.80 to \$3.81.

10 Q. So that question now is if you're thinking  
11 in a generic way about the costs for equipment that  
12 were in Verizon or AT&T's cost study, would it be the  
13 case that the equipment cost would likely be higher  
14 or lower based on the equipment that you're assuming  
15 in your study?

16 A. Can you define equipment for me, please?

17 Q. Switches, digital loop carriers, DSLAMs,  
18 things of that nature.

19 A. Okay. Well, I don't have switching in my  
20 model. I don't have DSLAMs in my model.

21 Q. Okay.

22 A. But if you look at page 34 of my testimony,

1     you can see the TPI index for circuit equipment on  
2     line 7.

3                     Circuit equipment is one area that has  
4     stayed relatively flat from an index cost  
5     perspective.

6             Q.     Index cost perspective meaning including  
7     inflation, in effect?

8             A.     Correct.

9             MR. TWOMEY:   Nothing further from me.

10            JUDGE YODER:   Mr. Lannon?

11            MR. LANNON:   Thank you, Your Honor.

12                     Hi.   I just have one follow-up recross  
13     question.

14                                REXCROSS-EXAMINATION

15     BY MR. LANNON:

16             Q.     Your attorney asked you about circuit  
17     electronics on page 23 of your direct, and would that  
18     have been line 63 of that table?

19                                (Pause)

20             Q.     It's page 23.

21             A.     Yes.   I apologize if I was incorrect.

22             Q.     No, that's all right.   There's a follow-up



1 question.

2 Is that figure only for Band 1?

3 A. Yes. I'm sorry. I thought I said Band 1,  
4 two-wire.

5 Q. Okay. Thank you.

6 A. And, I'm sorry, yes, row 28 applies to both  
7 of those tables on there.

8 MR. LANNON: Thanks a lot. That helped us  
9 understand that.

10 MR. DETHLEFS: No further redirect.

11 JUDGE YODER: All right. And Ms. Londerholm's  
12 Exhibit 2.0 was filed in both public and confidential  
13 versions?

14 MR. DETHLEFS: That's right.

15 JUDGE YODER: As well as Exhibit 3.1, her  
16 rebuttal testimony?

17 MR. DETHLEFS: Right, and we'd move for both of  
18 those.

19 JUDGE YODER: All right. Is there any  
20 objection to the admission of CenturyLink's Exhibit  
21 2.0, direct testimony of Ms. Londerholm filed  
22 followed with attachment Exhibit 2.1 or CenturyLink

1     3.1, the rebuttal testimony of Ms. Londerholm filed  
2     both public and confidential as well as Exhibits 3.2  
3     and 3.3?

4                   All right. Hearing no objection,  
5     those will be admitted into evidence in this docket.

6                   (Whereupon CenturyLink Exhibits  
7                   2.0, 2.1, 3.0, 3.1, 3.2 and 3.3  
8                   were admitted into evidence at  
9                   this time.)

10                   (Witness excused.)

11           JUDGE YODER: Anything further to present on  
12     behalf of Gallatin River, CenturyLink?

13           MR. DETHLEFS: No.

14           JUDGE YODER: All right. Mr. Twomey, is Mr.  
15     Miri next?

16           MR. TWOMEY: Yes.

17           JUDGE YODER: Mr. Miri, before your attorney  
18     starts, were you previously sworn?

19           THE WITNESS: Yes, I was.

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FRED MIRI

called as a witness herein, on behalf of NTS Services Corp., having been first duly sworn on his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. TWOMEY:

Q. Okay. Mr. Miri, can you give your full name and address for the record, please?

A. Fred Miri, 4 Kensington Court, Streamwood, Illinois 60107.

Q. And did you prepare testimony filed in this case on your behalf?

A. Yes, I did.

Q. Do you have any corrections or alterations to it as it was filed?

A. I couldn't find any, no.

Q. Is it still true to the best of your knowledge?

A. Yes.

MR. TWOMEY: I'd like to move for the testimony to be introduced into evidence in this case.

JUDGE YODER: All right. If you were called

1 and asked each of the questions in that testimony  
2 today, would your answers be the same?

3 THE WITNESS: Yes.

4 JUDGE YODER: All right. We'll address the  
5 admissibility following any cross-examination.

6 Mr. Dethlefs?

7 MR. DETHLEFS: Yes, I do have some cross. I  
8 have a couple cross exhibits I'm trying to track down  
9 here. Just a second.

10 CROSS-EXAMINATION

11 BY MR. DETHLEFS:

12 Q. Mr. Miri you're familiar with NTS  
13 generally, aren't you, and their operations in the  
14 state?

15 A. Not their day-to-day operations, but I'm  
16 familiar with the company, yes.

17 Q. Did you review the discovery request  
18 responses that NTS prepared in this case?

19 A. Yes, I did.

20 Q. Now, is it true that NTS is both a  
21 competitive local exchange carrier and an Internet  
22 service provider?

1           A.    Yes.

2           Q.    And among the services that NTS provides

3   are business grade telecom services?

4           A.    I believe so, yes.

5           Q.    Including local telephone service?

6           A.    Yes.

7           Q.    Long distance telephone service?

8           A.    Yes.

9           Q.    High speed Internet access?

10          A.    Yes.

11          Q.    And is it the same as DSL in your --

12          A.    Yes.

13          Q.    Private networking?

14          A.    I don't know about that.

15          Q.    High capacity service generally?

16          A.    I believe so.

17          Q.    And NTS does have some telecommunications

18   investment in Illinois, doesn't it?

19          A.    Yes.

20          Q.    They have a co-location space in one or

21   more of CenturyLink's central offices, correct?

22          A.    Right.

1           Q.    With some equipment in that co-location  
2 space?

3           A.    As well as a switch and leased fiber and a  
4 lot of other things.

5           Q.    Where is their switch located?

6           A.    In Pekin.

7           Q.    Did you review the discovery produced to  
8 staff in this proceeding by CenturyLink?

9           A.    I looked at almost all of the discovery  
10 requests.

11          Q.    And responses?

12          A.    And responses.

13          Q.    And would you agree that fiber is less  
14 expensive to maintain than copper?

15          A.    Not really my area of expertise, but in  
16 general, I would assume so, but fiber requires  
17 special equipment, special training for people to be  
18 able to maintain it whereas copper is a long, older  
19 technology that there's a lot of expertise out there  
20 with technicians.

21          Q.    So with that exception, would you agree  
22 that fiber is less expensive to maintain than copper?

1           A.    It is probably less susceptible to acts of  
2   God and things like that, so in that case, probably,  
3   yes.

4           Q.    NTS produced some AR-13s to us.  Have you  
5   looked at those?

6           A.    No.

7           Q.    You're not familiar with --

8           A.    I was not involved in any of their  
9   financials.  I didn't look at any of the financial  
10   data.

11          MR. DETHLEFS:  Your Honor, since he was NTS's  
12   witness, we assumed that he'd have knowledge  
13   concerning the responses to the discovery requests.

14          THE WITNESS:  Well, could you explain what the  
15   AR-13s are.

16          MR. DETHLEFS:  Just an annual report to the  
17   Illinois Commerce Commission.

18          THE WITNESS:  Was that the data that had just  
19   three figures on it or one figure?

20          MR. DETHLEFS:  May I approach the witness and  
21   show him what it is?

22          THE WITNESS:  Could I see it?

1 JUDGE YODER: For identification, yes. See if  
2 he's familiar with this document.

3 You want to have this marked at this  
4 time as a CenturyLink cross exhibit or --

5 MR. DETHLEFS: Sure.

6 JUDGE YODER: That would be CenturyLink Cross  
7 Exhibit 1?

8 MR. DETHLEFS: That would be great.

9 (Whereupon CenturyLink Cross  
10 Exhibit 1 was marked for  
11 identification as of this date.)

12 THE WITNESS: I've seen the page 1. I've never  
13 seen any of the rest of this.

14 MR. DETHLEFS: Your Honor, I don't know whether  
15 NTS has any objection, but we were going to offer  
16 into evidence as cross exhibits the last five years  
17 of these AR-13 reports.

18 MR. TWOMEY: Before you go there, could I ask  
19 the relevance first on where you're going?

20 MR. DETHLEFS: Well, there's been testimony in  
21 the record concerning the effect of the loop price  
22 that CenturyLink is proposing on NTS's business. It



1 goes directly to that.

2 MR. TWOMEY: Okay.

3 MR. DETHLEFS: He hasn't seen it.

4 THE WITNESS: I'm familiar with page 1. I'm  
5 not familiar with the rest of this.

6 MR. DETHLEFS: Does NTS have an objection to us  
7 introducing this into evidence?

8 MR. TWOMEY: None.

9 JUDGE YODER: Mr. Lannon, do you have any  
10 objection?

11 MR. LANNON: No, Your Honor.

12 JUDGE YODER: All right. Are there five of  
13 these?

14 MR. DETHLEFS: There are five of these.

15 JUDGE YODER: I assume this is one of the five.

16 MR. DETHLEFS: That's one of the five. So that  
17 would be Cross Exhibit 1. 2009 would be  
18 Cross-Examination Exhibit 2. The 2008 report would  
19 be Cross-Examination Exhibit 3. 2007 report would be  
20 Cross-Examination Exhibit 4, and 2006 report would be  
21 Cross-Examination Exhibit 5.

22

1                               (Whereupon Staff Cross Exhibits  
2                               1 through 5 were marked for  
3                               identification as of this date.)  
4               JUDGE YODER: All right. Without objection, I  
5       guess those will be admitted into evidence as cross  
6       exhibits.  
7                               (Whereupon Staff Cross Exhibits  
8                               1 through 5 were admitted into  
9                               evidence at this time.)  
10              MR. DETHLEFS: Your Honor, those are all the  
11     cross-examination questions I have for Mr. Miri.  
12              JUDGE YODER: Mr. Lannon, I do not believe you  
13     reserved any cross.  
14              MR. LANNON: None, Your Honor.  
15              JUDGE YODER: Mr. Twomey, you want to speak  
16     with your client for a minute?  
17              MR. TWOMEY: No, I'm ready for redirect.  
18              JUDGE YODER: I didn't know if you wanted to  
19     confer with him.  
20              MR. TWOMEY: No. We're good.  
21              JUDGE YODER: All right. Go ahead.  
22

1 REDIRECT EXAMINATION

2 BY MR. TWOMEY:

3 Q. Mr. Miri, can you just remind us of your  
4 background specifically with Madison River and  
5 Gallatin River during your time there, what your  
6 positions were, how long you were there, when you  
7 were there?

8 A. I was hired by Madison River in 2002 as  
9 vice president of operations for the CLEC.  
10 Basically, I was responsible for running the  
11 day-to-day operations of the CLEC in Illinois,  
12 Georgia, Texas, Louisiana, and Mississippi.

13 Q. Okay. In 2004, did you change positions  
14 within the company?

15 A. In 2004, I was promoted to president of  
16 Gallatin River here in Illinois, and I was here from  
17 2004 to September of 2007.

18 Q. Responsible for the ILEC operations?

19 A. The ILEC operations and also the CLEC  
20 operations. By then, the CLEC operations had been  
21 divvied up by the state presidents, so if you were  
22 the state president in that state, you were also

1     responsible for the CLEC, so I was responsible for  
2     both the ILEC and the CLEC in Illinois.

3             Q.     Okay. In that position in 2004 even when  
4     you started in 2002, did you become knowledgeable  
5     about the underlying basis for the UNE loop cost that  
6     Gallatin River was charging CLECs in Illinois?

7             MR. DETHLEFS: Your Honor, I think this line of  
8     questioning goes beyond the scope of my cross. Thus,  
9     I object. This is not meant to be a new opportunity  
10    to present testimony from scratch. That was supposed  
11    to be filed in the prefiled testimony.

12            MR. TWOMEY: This goes to the issue I think  
13    raised in here about whether or not NTS is profitable  
14    and why.

15            JUDGE YODER: I think I will sustain the  
16    objection. I think it is clearly beyond the scope.  
17    The reports were admitted without objection. He  
18    wasn't really crossed on them, so I will sustain the  
19    objection this time.

20            MR. TWOMEY: Okay.

21            Q.     Regarding these annual reports, counsel for  
22    CenturyLink asked about communications plans

1 generally for NTS.

2 Can you describe what capital plant is  
3 in the NTS network, how much it costs, and what it's  
4 composed of?

5 A. When I looked at their network, besides the  
6 switch, leased fiber, special equipment in the co-lo,  
7 similar equipment in the remotes where they're  
8 co-located, mostly leased fiber, probably about a  
9 million and a half worth of investment, and that  
10 includes the switch.

11 Q. In these reports, or first, in your  
12 testimony, you stated that the rates proposed by  
13 CenturyLink would be catastrophic.

14 Now, based on these reports, does  
15 anything, after reviewing them and reviewing all the  
16 pages in them, does anything change in your opinion?

17 A. No. They're losing money. They would lose  
18 even more. When I made that statement in my  
19 testimony, I was looking at the proposed rates. Say  
20 in Manito, if your rates go up from 17.93 to over  
21 \$60, you know, that's threefold, over threefold.  
22 There's no way that they could maintain any of those

1 lines. They would just lose more money.

2 MR. TWOMEY: All right. I have no further  
3 questions.

4 JUDGE YODER: Anything?

5 MR. DETHLEFS: No recross, Your Honor.

6 JUDGE YODER: All right. Is there any  
7 objection to the admission of NTS Exhibit 1.0, the  
8 direct testimony of Mr. Miri?

9 Hearing none, that will be admitted  
10 into evidence in this docket.

11 (Whereupon NTS Exhibit 1.0 was  
12 admitted into evidence at this  
13 time.)

14 JUDGE YODER: Thank you, Mr. Miri.

15 (Witness excused.)

16 JUDGE YODER: Who are you going to call first?

17 MR. LANNON: Your Honor, before I call staff  
18 witnesses, I'd like to move for admission into  
19 evidence Staff Exhibit 3 if that works for you which  
20 is a series of Gallatin River responses to staff DRs.

21 JUDGE YODER: Is this going to be filed on  
22 e-Docket or are you going to file it on paper?

1           MR. LANNON: I can do it both ways, either way.

2           JUDGE YODER: It doesn't matter to me. It just  
3 depends on where I put it in the report.

4           MR. LANNON: Is there one way that's easier  
5 than another for you?

6           JUDGE YODER: No. Both are the same for me.

7           MR. LANNON: Well, I've got the paper copies.

8           JUDGE YODER: All right.

9           MR. LANNON: Now, these are in lieu of cross...

10          JUDGE YODER: Do you want to call it a cross  
11 exhibit?

12          MR. LANNON: I thought we'd just call it Staff  
13 Exhibit 3 really.

14          JUDGE YODER: Okay. So these are a collection  
15 of responses to staff data requests?

16          MR. LANNON: Yes, staff data requests JZ 6.01  
17 to JZ 6.07 and a supplemental response to JZ 6.06.

18                               (Whereupon Staff Exhibit 3 was  
19                               marked for identification as of  
20                               this date.)

21          JUDGE YODER: All right, Mr. Lannon. So you've  
22 moved for the admission of Staff Exhibit 3 which is a

1 collection of responses to staff data requests JZ  
2 6.01 through 6.07 with a supplemental response to JZ  
3 6.06?

4 MR. LANNON: That's correct, Your Honor, and  
5 I'd also like to add that as part of the responses,  
6 the company also provided us a lot of information on  
7 CD electronically.

8 I am not moving for that information  
9 into the record.

10 MR. DETHLEFS: Okay. I just wanted that on the  
11 record.

12 JUDGE YODER: So with that understanding,  
13 you're providing the written response, not a  
14 collection of whatever that's on the CD that was  
15 provided?

16 MR. LANNON: Yes. The CD contained Excel files  
17 was my understanding, and staff is not moving for  
18 that information to be included in the record, just  
19 the written responses.

20 MR. DETHLEFS: And CenturyLink does not object  
21 to that.

22 JUDGE YODER: Okay. Mr. Twomey, any objection



1 to the admission?

2 MR. TWOMEY: No.

3 JUDGE YODER: All right. Then Staff Exhibit 3  
4 will be admitted into evidence in this docket.

5 (Whereupon Staff Exhibit 3 was  
6 admitted into evidence at this  
7 time.)

8 JUDGE YODER: You have Mr. Zolnierек or  
9 Mr. McClerren to go first?

10 MR. LANNON: Staff would call Dr. Zolnierек.

11 JUDGE YODER: Dr. Zolnierек, were you  
12 previously sworn?

13 THE WITNESS: Yes, I was.

14 JUDGE YODER: All right. Thank you.

15 JAMES ZOLNIERЕК

16 called as a witness herein, on behalf of staff of the  
17 Illinois Commerce Commission, having been first duly  
18 sworn on his oath, was examined and testified as  
19 follows:

20 DIRECT EXAMINATION

21 BY MR. LANNON:

22 Q. Can you please state your full name and

1 spell your last name for the record?

2 A. James Zolniererek (Z-o-l-n-i-e-r-e-k).

3 Q. And by whom are you employed?

4 A. The Illinois Commerce Commission.

5 Q. And what's your position with the

6 Commission?

7 A. Director of the Policy Division.

8 Q. And do you have before you documents which

9 have been marked for identification as ICC Staff

10 Exhibit 1.0 Revised entitled "Revised Direct

11 Testimony of Dr. James Zolniererek"?

12 A. Yes, I do.

13 Q. And does Staff Exhibit 1.0 consist of both

14 a confidential and public version?

15 A. Yes, it does.

16 Q. And does Staff Exhibit 1.0 consist of a

17 cover page, a table of contents, 23 pages of

18 narrative testimony, and Attachments 1.0, both

19 confidential and public versions?

20 A. Yes.

21 Q. And 1.02, confidential and public versions?

22 A. Yes.

1           Q.    Are these true and correct copies of the  
2   confidential and public revised direct testimony that  
3   you have prepared for this proceeding?

4           A.    Yes.

5           MR. LANNON:   Now, Your Honor, we filed and I  
6   e-mailed to everybody the revisions, the reasons why.  
7   We've entitled this testimony Revised Staff  
8   Exhibit 1.0.   I can have Dr. Zolnierrek walk us  
9   through that now if you want.   If not, we did send  
10   out red lined copies.

11          JUDGE YODER:   I don't unless one of the parties  
12   does, but is this not showing on e-Docket yet.   This  
13   is what I received last week or was this filed in  
14   December?

15          MR. LANNON:   Oh, it was filed this morning.   I  
16   sent an e-mail out that said it would be filed Friday  
17   but I missed the filing.

18          JUDGE YODER:   All right.   Then I will indicate  
19   it's one being filed today, and if there's no  
20   requests then, is that the end of your examination?

21          MR. LANNON:   Not quite.

22          JUDGE YODER:   Okay.

1           Q.    BY MR. LANNON:   Under the revisions  
2   identified in your revised testimony, Dr. Zolnierrek,  
3   do you have any corrections to make to ICC Staff  
4   Exhibit 1.0?

5           A.    No, I do not.

6           Q.    Is the information contained in ICC Staff  
7   Exhibit 1.0 Revised and the company attachments true  
8   and correct to the best of your knowledge?

9           A.    Yes, it is.

10          Q.    And if you were asked the same questions  
11   today, would the answers contained in your prepared  
12   testimony be the same?

13          A.    Yes, they would.

14          MR. LANNON:   Your Honor, I'd move for the  
15   admission into evidence of revised staff direct  
16   testimony of Dr. Zolnierrek, Staff Exhibit 1.0,  
17   including attachments.

18                   And I'd note for the record that Staff  
19   Exhibit 1.0 was originally filed on e-Docket  
20   December 16, 2011.   The revised version was filed on  
21   e-Docket this morning, February 21st I think.

22                   And with that, Your Honor, I tender

1 Dr. Zolnierек for cross-examination.

2 JUDGE YODER: Okay. One clarification for the  
3 hearing report.

4 Were the attachments also revised or  
5 are those --

6 MR. LANNON: No, just the narrative, Your  
7 Honor.

8 JUDGE YODER: Okay. So the attachments were  
9 filed -- I'm sorry. What was that date again --  
10 December 16th?

11 MR. LANNON: Yes. I think we refiled them  
12 also -- no, I think we did not refile those also.

13 Yes, the attachments were filed on  
14 December 16th and not refiled with the revised  
15 testimony, Your Honor.

16 JUDGE YODER: All right. With that  
17 understanding, you tender Mr. Zolnierек.

18 Mr. Dethlefs, do you have cross  
19 reserved for Dr. Zolnierек?

20 MR. DETHLEFS: Yes, I do, Your Honor.

21

22

1 CROSS-EXAMINATION

2 BY DETHLEFS:

3 Q. Dr. Zolnierrek, you've cited a number of FCC  
4 rules in your testimony.

5 Is it fair to say you're generally  
6 familiar with the TELRIC rules and what they require?

7 A. Yes.

8 Q. Would you agree that the TELRIC of an  
9 element should be based upon the most efficient  
10 telecommunications technology currently available?

11 A. Yes.

12 Q. And the lowest cost network configuration?

13 A. Yes.

14 Q. And the only thing that it assumes about  
15 the existing, if you will, embedded network is the  
16 existing location of the incumbent LECs wire centers?

17 A. Yes.

18 Q. So is it fair to say that TELRIC is not  
19 dependent upon the technology that is deployed in the  
20 existing network?

21 MR. LANNON: Your Honor, I just want to note  
22 that Dr. Zolnierrek is not a lawyer. I'll let him

1       answer as a lay witness.

2               JUDGE YODER:   I'm sorry.   You're asking to  
3       clarify that he's not rendering a legal opinion?

4               MR. LANNON:   That's correct, Your Honor.

5               JUDGE YODER:   All right.   Thank you.

6               THE WITNESS:   Not directly.   The TELRIC, as you  
7       noted, the only assumption it makes in terms of the  
8       network is existing wire centers, and then you can  
9       deploy the most efficient technology whether or not  
10      that technology is in the network right now.   So from  
11      that respect, in that regard, no, there's no  
12      assumption there.

13              Q.   BY MR. DETHLEFS:   And it's your  
14      understanding that TELRIC is not dependent upon the  
15      existing network configuration either, is that  
16      correct?

17              A.   Correct.

18              Q.   Now, would you agree that CenturyLink's  
19      existing network has been built over a number of  
20      years?

21              A.   Yes.

22              Q.   And is it fair to say that given advances

1 in technology that the existing network probably does  
2 not have the most efficient telecommunications  
3 technology currently available?

4 A. Not ubiquitously. I would assume not.

5 Q. But it might have some of the current  
6 technology, correct?

7 A. Correct.

8 Q. And because TELRIC assumes, excuse me,  
9 because the existing network was not built with 2020  
10 hindsight, it probably does not represent the lowest  
11 cost network configuration given the existing  
12 location of the wire centers, correct?

13 A. Correct.

14 Q. You would agree that for purposes of  
15 TELRIC, based on your understanding, that the network  
16 that you model is the network that you would be  
17 building today if you were to do it from scratch  
18 assuming the wire center location, right?

19 A. To provide the functionality associated  
20 with the elements, yes.

21 Q. Now, you make the statement in your  
22 testimony that the two-wire loops included within



1 CenturyLink's cost model contained functionalities  
2 and thus costs that are not directly attributable to  
3 or reasonably incremental to such elements.

4 Is the functionality that you're  
5 referring to in that statement broadband  
6 functionality?

7 MR. LANNON: Can you point us to a page?

8 MR. DETHLEFS: Yes.

9 MR. LANNON: It might be page 9.

10 MR. DETHLEFS: Page 9, lines 196 to 198 I think  
11 is where I took that from.

12 THE WITNESS: Okay. I see that.

13 What I intended there is I think --  
14 actually, Ms. Londerholm had a nice characterization  
15 of what I meant there in terms of broadband capable  
16 loops versus actual loops provision for broadband.

17 I think in her rebuttal testimony on  
18 page 15 spilling over to 16, she makes reference to  
19 the following, or she states the following: The  
20 copper loop must be free of all encumbrances to allow  
21 the CLEC to provision broadband (that is, a broadband  
22 capable loop) which should not be a broadband

1     provisioned loop.

2                     When I'm talking about functionalities  
3     attributable to an element here, what I mean is I  
4     believe that CenturyLink built in a broadband  
5     capability although they did not necessarily provide  
6     all the electronics that would be necessary to  
7     actually provision the loop for broadband. The  
8     capability is there. That functionality was built  
9     into loops in the model that just doesn't exist in  
10    actual practice to my knowledge.

11            Q.    Now, you understand that some of the loops  
12    in the model don't have DLCs on them, is that  
13    correct?

14            A.    Correct.

15            Q.    Only about 31 percent of the loops are  
16    actually hooked up to a DLC?

17            A.    That's what I understand.

18            Q.    So when you say the broadband capability,  
19    you're referring to the 31 percent of the loops that  
20    have DLCs connected to them, right?

21            A.    Well, it's my understanding the way the  
22    network was modeled in the model, all the loops are

1     either short enough in terms of a loop length or are  
2     close enough to a DLC that they're all broadband  
3     capable.

4           Q.   For the loops that don't have a DLC on them  
5     or connected to them, it's fair to say that the  
6     remaining loops CenturyLink hasn't done anything to  
7     model to make them more broadband capable than they  
8     would otherwise have been, right?

9           A.   Correct, not to my knowledge.

10          Q.   Now, on page 11, lines 236 to 241 of your  
11     testimony, you make the statement, "To the extent  
12     that CenturyLink's existing loop network does not  
13     provide for ubiquitous broadband functionality to all  
14     customers within Illinois, the higher band width  
15     functionality included in the model configuration is  
16     not a functionality that is attributable or  
17     reasonably incremental to all the two-wire loops that  
18     CenturyLink will be providing as units."

19                   When you make that statement, are you  
20     asserting that it's appropriate to model loops that  
21     are broadband capable if the existing network is  
22     broadband capable?

1           A.    Yes, I believe that's a reasonable  
2    interpretation.

3           Q.    So if CenturyLink's existing network had  
4    the number of DLCs that the model has, are you saying  
5    that it would then be okay to model using the DLCs as  
6    CenturyLink has done?

7           A.    No, I don't think the comparison is fair.  
8    I mean, as you noted, the model, the existing network  
9    was built under different conditions. It was built  
10   incrementally and the number of DLCs in the existing  
11   network wouldn't necessarily add up to what you would  
12   deploy in a hypothetical network.

13                   What I was intending to imply was if  
14   the loop currently has a broadband functionality,  
15   it's reasonable to build the loop that meets that  
16   with perhaps a better technology, different  
17   technology that has those functions, that has the  
18   same functionalities.

19                   If there are loops, say the longest  
20   loops that do not have that broadband capability in  
21   the model, they are built such as they are, and I  
22   believe it increases the cost to build them that way

1 in the model, so you're adding cost where the  
2 functionality doesn't actually exist.

3 Q. I guess what I'm getting at is I'm a little  
4 confused as to whether or not you believe that what  
5 you model is somehow tied to what exists in the  
6 existing network.

7 A. It's not tied to how the existing network  
8 is designed, the number of DLCs. It's tied to the  
9 width of the functionality the existing network  
10 provides.

11 If you're going to provide a loop to  
12 NTS and that loop is incapable of providing broadband  
13 but yet your model has built in a broadband  
14 capability and you're charging for it, I think that's  
15 inconsistent with the TELRIC principles.

16 If your network -- if you're providing  
17 a loop because of the way you built the network that  
18 has a broadband capability and you model such that  
19 the broadband capability is in your model's network,  
20 your hypothetical model's network, I think that's  
21 fine.

22 It doesn't mean that they're going to

1 be the same technology. It just means at the end,  
2 the functionality that you're providing in the actual  
3 elements matches the functionality in the model.

4 Q. So if I hear you right, you're saying that  
5 if a current network can provide broadband, then it's  
6 okay to include it in the model?

7 MR. LANNON: I object to the way that was  
8 phrased.

9 THE WITNESS: Yeah. I'm not sure I understand.  
10 Are you making a general statement  
11 that if somewhere in the network it's broadband  
12 capable, it's okay to provide it throughout the  
13 network?

14 Q. MR. DETHLEFS: No. I mean, let's say 60  
15 percent of the existing network has DLCs located and  
16 so that it's broadband capable as you understand  
17 that.

18 Are you saying that 60 percent of the  
19 model's network is okay if it has broadband  
20 functionality?

21 A. Yeah, with the exception of... I think  
22 you're focusing on the technology. The way I would

1 put it is if 60 percent of the customers have  
2 broadband capability built in the existing network  
3 and you provide the elements to NTS, those 60 percent  
4 of the customers have that capability, I think it's  
5 reasonable to model them having that capability. I  
6 don't think it's reasonable to model the other 40  
7 percent as having that capability when those elements  
8 don't have it.

9 Q. Now, you agree that to provide broadband  
10 using the 12,000-foot fiber copper cutoff, there  
11 needs to be a DSLAM at the DLC, correct?

12 A. Yeah. I understand there's additional  
13 equipment including possibly a DSLAM that would be  
14 needed to actually provision the broadband. Without  
15 that, you can't provide equipment.

16 Q. And to provide broadband, the digital loop  
17 carrier has to be sized big enough to include that  
18 DSLAM equipment, correct?

19 A. Right, I believe that.

20 Q. Now, does your criticism of CenturyLink's  
21 model boil down to an argument that there are too  
22 many digital loop carriers in the model?

1           A.   Not necessarily.  I mean, it wasn't, like I  
2   said, it's not the technology that I'm criticizing.  
3   I mean, if it worked out that way, that all the  
4   customers that had the broadband capability  
5   currently, those elements had that capability,  
6   required number of DLCs, I would have no problem with  
7   it, but I believe there are more DLCs than are  
8   necessary because you're providing the capability the  
9   network doesn't have, so you have more DLCs than is  
10  necessary to provide the functionality that exists in  
11  the elements.

12           Q.   And one of the ways you made that argument  
13  is you compared the number of DLCs in Bands 2 and 3  
14  in the existing network with the number of DLCs in  
15  the embedded network and you found more in the model  
16  network, correct?

17           A.   I believe, at least in Band 2 and 3.  Band  
18  1 I think there may have actually been more in the  
19  model.  I'd have to check.  That's subject to check.

20                   But to be clear, I would expect that  
21  in the existing network, there would be more DLCs  
22  than in the hypothetical model if you did it the way



1 I'm recommending. I just don't think the difference  
2 would be as stark as it is or as great as it is.

3 Q. Well, you would agree subject to check that  
4 in the existing network for Band 1, there are 56 DLCs  
5 and in the model network there are 68?

6 MR. LANNON: Could you point it out for the  
7 witness?

8 THE WITNESS: Hold on. I think it's in my  
9 exhibit.

10 MR. LANNON: In your exhibit?

11 THE WITNESS: Yes.

12 (Pause)

13 THE WITNESS: Okay. Could you go back and  
14 repeat that?

15 Q. BY MR. DETHLEFS: Subject to check, would  
16 you agree that there are in the existing network 56  
17 digital loop carriers versus the model network where  
18 there are 68?

19 A. Correct.

20 So I was incorrect earlier. There are  
21 slightly more in the model, even in Band 1.

22 Q. But the disparity is much lower in Band 1

1       than you point out for Band 2 and 3, correct?

2           A.    Correct.

3           Q.    Now, another comparison you make in your  
4       testimony is you compared the number of sheath feet  
5       copper and fiber in the model to what there is in the  
6       existing network, correct?

7           A.    I need to clarify that.  That was a  
8       response to Ms. Londerholm's testimony.  She made  
9       that comparison and I was responding to her analysis.

10          Q.    And that's on page 18 of your testimony?

11          A.    Correct.

12          Q.    And what you point out is that in the  
13       existing network there's more copper than in the  
14       model network, correct?

15          A.    Correct.

16          Q.    And in the model network, there's more  
17       fiber than in the existing network, right?

18          A.    Correct.

19          Q.    But the total number of sheath feet of both  
20       fiber and copper is lower in the model than in the  
21       existing network, correct?

22          A.    Correct.

1 Q. By a sizeable amount, wouldn't you agree?

2 A. I would agree.

3 Q. Now. Is it your testimony today that fiber  
4 is more costly than copper?

5 A. Not in every instance. I mean, if you  
6 deployed -- there's a mix of fiber and copper that's  
7 deployed in the model. As is, there are different  
8 mixes, and I think at some point there's break  
9 points. I mean, providing fiber to the home would be  
10 one cost versus fiber partway to a DLC at various  
11 lengths. I think there's a cost benefit tradeoff.  
12 At some point, it would be more costly in my  
13 conjecture to have fiber to the home than it would to  
14 have fiber partways done in the model.

15 Q. But you don't have an opinion as you sit  
16 here today as to where that break point is or --

17 A. Well, the only piece of information I had  
18 is the 18,000-foot versus the 12,000-foot, the CSA  
19 design.

20 With an 18,000 foot CSA design, per  
21 unit cost in each of the bands was cheaper than it is  
22 in the 12,000-foot CSA design, and I would assume,

1     and I think Ms. Londerholm testified, that under the  
2     18,000-foot design, there's more copper than in the  
3     12,000-foot design.

4                     So in that case, use of relatively  
5     more copper ends up being a little bit cheaper.

6             Q.     A little bit cheaper, like a dollar a line?

7             A.     In Band 2, I think the numbers may be  
8     proprietary.

9             MR. LANNON:   Yes.

10            A.     But it's as much as 20 percent I think.

11            Q.     Well, one of the things that reduces the  
12     cost when you're using an 18,000 foot cutoff is you  
13     have a fewer number of DLCs in the model, correct?

14            A.     Presumably.

15            Q.     Now, it's not your position, is it, that in  
16     making this comparison between the amount of fiber  
17     and copper in the existing network versus the modeled  
18     network that the model must somehow use the same  
19     amount of copper and fiber proportionately as the  
20     embedded network?

21            A.     No, not at all.

22            MR. DETHLEFS:   Your Honor, those are the

1 cross-examination questions I have.

2 JUDGE YODER: All right. Mr. Twomey?

3 MR. TWOMEY: I just have a couple.

4 CROSS-EXAMINATION

5 BY MR. TWOMEY:

6 Q. Just a higher level, can you describe your  
7 position on the relationship between TELRIC and  
8 broadband enabled networks generally? What's the  
9 layman's view of how that should work when designing  
10 TELRIC study?

11 You would prefer the idea of broadband  
12 capable versus broadband provision as one example.  
13 Can you just elaborate a bit on how it should fit?

14 A. What I propose and what I think is a proper  
15 interpretation of the TELRIC principles is in this  
16 case, CenturyLink is going to be providing elements,  
17 I've focused on the two-wire loops, and those  
18 elements come with associated capabilities and  
19 functionalities.

20 One of the capabilities that a loop  
21 may or may not have is broadband capability. It  
22 doesn't mean it's provisioned for broadband, but it's

1     capable of providing adequate broadband depending on  
2     how it's provisioned, and my belief is to properly  
3     model that, you should model the functionality that  
4     the loop has.

5                     So if it is existing today, a  
6     broadband capable loop, it's reasonable to include  
7     that functionality in the cost model. If it does not  
8     have that capability, I do not think it's appropriate  
9     to model that functionality.

10            Q.    Okay. And just to be clear, in terms of  
11    what's available as an unbundled network element  
12    pricing which comes out of a TELRIC study, just to be  
13    clear, broadband services are in no way available as  
14    an unbundled network element, correct?

15            A.    If you cannot buy broadband -- in some  
16    sense, the service itself is not what's being  
17    provided. You're being provided a piece of the  
18    network. Broadband is something you can do with that  
19    piece of the network in some situations.

20            Q.    Right.

21            A.    So in some cases, the loop that you're  
22    provided, for example, a short copper loop, NTS may

1     be able to provide broadband over that loop. That  
2     way that element is provisioned.

3                     A six-mile long copper loop, NTS may  
4     not be able to provide broadband over that loop  
5     because it's just too far from the CO, the central  
6     office.

7             Q.     So this issue of the broadband versus  
8     TELRIC relationship, has this been discussed in  
9     previous Commission proceedings, interconnection  
10    arbitration proceedings?

11            A.     I noted two in my testimony where it has.  
12    AT&T had a TELRIC proceeding and then Verizon also  
13    had a TELRIC proceeding, and that issue came up in  
14    both of those cases.

15            Q.     Okay. Is your testimony consistent with  
16    the Commission's findings in those cases?

17            A.     In both cases, a 12,000-foot loop length  
18    was adopted, but I don't think that's inconsistent  
19    with the position I've taken in this case. I think  
20    each case has to be looked at individually.

21                     In those cases, the Commission, for  
22    whatever reason, found those to be the appropriate

1 lengths.

2 In this one, it's my opinion that it's  
3 not the appropriate length, but that's what was  
4 decided.

5 My recommendation is different than  
6 what was adopted in those two previous proceedings.  
7 In both proceedings, 12,000 foot was adopted. I  
8 recommend that not be adopted ubiquitously here.

9 Q. Okay. Enough of that.

10 One quick question now. In  
11 Mr. Miller's cross-examination, he suggested that the  
12 Commission is not allowed to set proxy rates. On  
13 line 47 of your testimony, you suggested that it  
14 would be possible.

15 A. I'm sorry. Which line is that?

16 Q. Line 47.

17 A. Okay.

18 Q. So can you describe your position on the  
19 applicability of proxy rates to interconnection  
20 arbitration proceedings?

21 A. Frankly, I saw Mr. Miller's response, and  
22 that -- I mean, what I quote here is the FCC's rule



1     that's found in the Code of Federal Regulations site.  
2     He's indicated that there's been some court action  
3     that may make those ineffective at this point. I  
4     think we need to go back and review that legally. I  
5     haven't done that.

6             MR. LANNON: Your Honor, I'm going to object to  
7     any further questions down this line because it is a  
8     somewhat technical legal issue as to whether that  
9     particular CFR was overturned or whether it remains  
10    in effect.

11            MR. TWOMEY: I agree.

12                    No further questions.

13            JUDGE YODER: Mr. Lannon, do you have any  
14    redirect? Do you wish to talk to Dr. Zolnierrek for a  
15    minute?

16            MR. LANNON: We have nothing, Your Honor.

17            JUDGE YODER: All right. Then is there any  
18    objection to the admission of Staff Exhibit 1.0  
19    Revised, revised direct testimony of Dr. Zolnierrek  
20    filed both public and confidential versions and staff  
21    attachments 1.01 and 1.02 also filed public and  
22    confidential?

1           MR. DETHLEFS: No objection from CenturyLink.

2           MR. TWOMEY: None from NTS.

3           JUDGE YODER: All right. Then without

4 objection, that will be admitted into evidence in

5 this docket.

6                           (Whereupon Staff Exhibits 1.0,

7                           1.01 and 1.02 were admitted into

8                           evidence at this time.)

9           JUDGE YODER: Mr. McClerren?

10                       Mr. McClerren, as you take the stand,

11 were you previously sworn?

12           THE WITNESS: I was, yes.

13           JUDGE YODER: Okay. Thank you.

14                       SAMUEL McCLERREN

15 called as a witness herein, on behalf of staff of the

16 Illinois Commerce Commission, having been first duly

17 sworn on his oath, was examined and testified as

18 follows:

19                       DIRECT EXAMINATION

20 BY MR. LANNON:

21           Q. Can you please state your full name

22 spelling your last name for the record?

1           A.    Samuel S. McClerren.  That's spelled  
2   M-c-C-l-e-r-r-e-n.  
3           Q.    And by whom are you employed?  
4           A.    The Illinois Commerce Commission.  
5           Q.    And have you prepared written testimony for  
6   purposes of this proceeding?  
7           A.    I have.  
8           Q.    Do you have before you documents marked for  
9   identification as Staff Exhibit 2.0 entitled "Direct  
10   Testimony of Samuel S. McClerren" which consists of a  
11   cover page and 13 pages of narrative testimony?  
12          A.    I do, yes.  
13          Q.    And is that a true and correct copy of the  
14   direct testimony that you have prepared for this  
15   proceeding?  
16          A.    It is, yes.  
17          Q.    Do you have any corrections to make to your  
18   prepared direct testimony?  
19          A.    I have none.  
20          Q.    Is the information contained in Staff  
21   Exhibit 2.0 true and correct to the best of your  
22   knowledge?

1           A.    Yes.

2           Q.    And if I were to ask you the same questions  
3   today, would the answers contained in your prepared  
4   testimony be the same?

5           A.    They would be the same.

6           MR. LANNON:  Your Honor, I'd like to move for  
7   admission into evidence Mr. McClerren's prepared  
8   direct testimony marked as ICC Staff Exhibit 2.0, and  
9   I note for the record that this was the same document  
10  originally filed on the Commission's e-Docket system  
11  on December 16, 2011.

12          JUDGE YODER:  All right.  Thank you.  We'll  
13  address the admissibility following cross.

14                   Mr. Dethlefs, do you have cross of  
15  Mr. McClerren?

16          MR. DETHLEFS:  Yes.  I have very few questions.

17                               CROSS-EXAMINATION

18  BY MR. DETHLEFS:

19          Q.    Mr. McClerren, you say on page 5, Line 84  
20  of your testimony, "I am unaware of strong upward or  
21  downward cost pressures relative to two-wire loop or  
22  DS-1 loop services since 2006."

1 Do you see that?

2 A. Yes, I do.

3 Q. You would agree that part of the cost of  
4 the loop is going to be the copper that's used in the  
5 loop and part of it's going to be the fiber that's  
6 used in the loop, wouldn't you?

7 A. Certainly.

8 Q. And if there's a DLC, you know, that would  
9 be included as well?

10 A. Yes.

11 Q. What did you do to evaluate whether the  
12 cost of copper has risen or declined since 2006?

13 A. I did not look specifically at copper.

14 What I can tell you about this  
15 statement, there are two observations. Inflation  
16 just generically across the economy has been very  
17 stable in the last five years, but more to the point  
18 of where we're at, my function also includes that of  
19 tariff administration which means that every  
20 telecommunications tariff filed with the state for  
21 the last three years comes across my desk.

22 There have been rate increases

1 requested. I will acknowledge that. I will also  
2 tell you they have been relatively few and not  
3 significant in terms of percentage, so it is my  
4 belief that companies are not experiencing strong  
5 upward pressures or they would be seeking rate  
6 relief.

7 Q. Now, if a company was seeking a price  
8 increase for its services, that would be based on its  
9 total cost of service, correct?

10 A. I'm sure that is true, yes.

11 Q. And included in its cost of service is  
12 going to be the network that it's already deployed,  
13 correct?

14 A. That would be correct, yes.

15 Q. And so the change in the cost pressures if  
16 you will that a company would experience that would  
17 influence its retail rates would be the cost of new  
18 plant that was put in place since the time of the  
19 last rate setting. Wouldn't you agree?

20 A. That's not entirely clear. Certainly  
21 labor, cost of money, all expenditures would be  
22 included, and perhaps just the desire for additional

1 profit would lead a company to seek increased rates.

2 Q. But in terms of the physical infrastructure  
3 that's in the ground, to the extent that that  
4 contributes to a company's costs, that would only be  
5 impacted by additions to that plant, correct?

6 A. Additions or replacements.

7 Q. Or replacements.

8 And when companies file tariffs with  
9 you, they don't tell you in their filings, you know,  
10 how much their costs had increased?

11 A. Certainly not.

12 Q. They're just requesting a price increase,  
13 right?

14 A. It is merely price, yes.

15 Q. Same thing about fiber. What did you do to  
16 evaluate whether the costs of fiber had risen or  
17 declined since 2006, setting aside what you've done  
18 reviewing tariffs?

19 A. I would again rely upon my experience with  
20 the pricing of telecommunications companies in  
21 Illinois.

22 Q. Now, one of the things that you looked at

1 in preparing your testimony was the Verizon, former  
2 Verizon rate for Band 1 and Band 2 loop rates,  
3 correct?

4 A. Band 1 particularly.

5 Q. Band 1 in particular. They also had a Band  
6 2 rate too though, correct?

7 A. Band 1 is what I reviewed particularly.

8 Q. Okay. Isn't it true that in a proceeding  
9 that lead to the Verizon Band 1 rate, the first thing  
10 the Commission did was it made a determination as to  
11 whether it was going to approve Verizon's cost model,  
12 correct?

13 A. I do not really recall that document. I  
14 cannot confirm that.

15 Q. Do you have any reason to believe that that  
16 was not the case?

17 A. I have no reason to believe it one way or  
18 the other, no.

19 Q. Did you review the order in which the  
20 Commission adopted the Verizon Band 1 rate?

21 A. No.

22 Q. In your experience, has the Commission in



1 cost dockets typically addressed the pricing of UNES  
2 in phases?

3 A. I cannot answer that.

4 Q. Now, one of the things you say in your  
5 testimony is that you believe that higher loop  
6 density equates with shorter average loop lengths.  
7 Is that a fair statement?

8 A. I believe that is true, yes, absent any  
9 other information, yes.

10 Q. It could be, couldn't it, that a more dense  
11 wire center has more loops that go out to the  
12 periphery of the wire center?

13 A. That is possible.

14 Q. In which case density might not lead to  
15 shorter loop lengths? Is that a possibility?

16 A. That would be true in my opinion for both  
17 CenturyLink and Verizon.

18 Q. And so whether there's a relationship  
19 between loop density and loop length depends upon the  
20 distribution of customers within the exchange. Fair  
21 statement?

22 A. That would be true for CenturyLink or

1 Verizon, yes.

2 Q. Did you review the data request responses  
3 that CenturyLink provided in this case?

4 A. Just the ones I requested.

5 Q. One of the data requests gave information  
6 concerning CenturyLink's access line losses.

7 Did you review that?

8 MR. LANNON: Objection.

9 Did he make that data request?

10 MR. DETHLEFS: You know, I don't remember  
11 whether -- I have JZ 5.02, but I don't know whether  
12 that involved you at all.

13 THE WITNESS: It did not.

14 Q. Would you agree, based on your experience,  
15 that access line loss increases the loop cost or the  
16 average cost per loop?

17 A. It would not impact the fixed cost. To the  
18 extent you are distributing those over fewer lines, I  
19 would agree.

20 Q. One last question.

21 In this proceeding, you're only making  
22 a recommendation with respect to Band 1. Is that an

1 accurate statement?

2 A. Yes.

3 Q. I do have one final question.

4 Since the '96 act, the local exchange  
5 market has been open to competition, hasn't it?

6 A. Yes.

7 Q. Wouldn't you agree that the entry of  
8 competitors puts downward pressure on the prices that  
9 companies can charge for their services?

10 A. I need to understand that better. Can you  
11 rephrase that?

12 Q. Well, if you have a competitor who's  
13 offering a service in competition, say a cable  
14 company offering a service in competition with the  
15 telephone company, wouldn't you agree that the  
16 entrance of that competitor is going to put downward  
17 pressure on prices that companies can charge for  
18 their service, whether it be local telephone service  
19 or some other service?

20 A. In theory, I would agree competition would  
21 hold prices down, yes.

22 Q. So it's possible that one of the reasons

1     you haven't seen a lot of requests for price  
2     increases in reviewing tariffs is that there's been  
3     some competitive pressure that's kept them down?

4             A.    That might be a factor, but I am not seeing  
5     a lot of competition in the smaller markets that  
6     we're describing.

7             Q.    You would agree that cell service competes  
8     with local telephone service, wouldn't you?

9             A.    It is being used as a substitute by people,  
10    yes.

11            Q.    And one of the options that people have is  
12    to cut their cord so to speak and not have landline,  
13    just use a cell phone?

14            A.    I would agree.

15            MR. DETHLEFS:  No further questions, Your  
16    Honor.

17            JUDGE YODER:  Thank you.

18                    Mr. Twomey, do you have any questions?

19            MR. TWOMEY:  Nothing from NTS.

20            JUDGE YODER:  All right.  Mr. Lannon, do you  
21    want to speak to your client a moment?

22            MR. LANNON:  Staff will have no redirect.

1 JUDGE YODER: All right.

2 Thank you, Mr. McClerren.

3 (Witness excused.)

4 JUDGE YODER: Is there any objection to the  
5 admission of Staff Exhibit 2.0, the direct testimony  
6 of Mr. McClerren?

7 MR. DETHLEFS: No objection from CenturyLink,  
8 Your Honor.

9 MR. TWOMEY: None from NTS.

10 JUDGE YODER: All right. Without objection,  
11 that will be admitted into evidence in this docket.

12 (Whereupon Staff Exhibit 2.0 was  
13 admitted into evidence at this  
14 time.)

15 JUDGE YODER: Is there anything further on  
16 behalf of staff?

17 MR. LANNON: Excuse me?

18 JUDGE YODER: Anything further on behalf of  
19 staff in this proceeding?

20 MR. LANNON: Nothing further.

21 JUDGE YODER: All right. Then that concludes  
22 the testimony portion of this docket.

1                   Is there any reason the parties can  
2    think of why we would not be able to have the record  
3    marked heard and taken today? I assume there's no  
4    late filed exhibits or anything of that nature.

5                   All right. I'll have the record  
6    marked heard and taken.

7                   Off the record for a minute.

8                               (Whereupon an off-the-record  
9                               discussion transpired at this  
10                              time.)

11                  JUDGE YODER: Back on the record.

12                   All right. The parties had a brief  
13    discussion before going back on the record about  
14    potential scheduling dates, and it appears that the  
15    parties need to do more conferring with their  
16    clients.

17                   The parties indicate at this point  
18    their preference would be to set a date for filing of  
19    an initial brief. After that, there would be a  
20    filing for reply briefs. At the same time, the  
21    parties would file proposed orders summarizing their  
22    own positions and their recommended -- they would not

1 be required to summarize the other parties' positions  
2 as long as each parties' conclusions or recommended  
3 language to a commission's conclusions is in the  
4 order.

5                   So the parties indicate they will  
6 discuss over the next 24 to 48 hours the suggested  
7 schedule. As it stands, the deadline has been  
8 extended into late April, and the parties indicate  
9 they would probably be amenable to an extension of  
10 that for a couple of weeks to accommodate the filing  
11 of the briefs and reply briefs and the preparation of  
12 a proposed order, so the parties will tender an  
13 agreed schedule for the remainder, and I'll send out  
14 a ruling and the parties will be provided that.

15                   Is there anything else to address  
16 today?

17                   I don't hear anything so the record  
18 will be marked heard and taken, and I will await the  
19 parties' recommendation as to a proposed schedule.  
20 Thank you.

21                   HEARD AND TAKEN

22